COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

6 0 3 0

Company Name

SECURITY BANK CORPORATION AND SUBSIDIARIES

Principal Office (No./Street/Barangay/City/Town/Province)

6776 Ayala Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CFD	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
sbonline@securitybank.com.ph	867-6788	–

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
1,864	4/28	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
JOSELITO E. MAPE	jmape@securitybank.com.ph	888-7291	0917-8864436

Contact Person's Address

Security Bank Centre, 6776 Ayala Avenue, Makati City

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Security Bank Corporation
6776 Ayala Avenue
Makati City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Security Bank Corporation and Subsidiaries (the Group) and of Security Bank Corporation (the Parent Company), which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Group's management is responsible for the preparation and fair presentation of the financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as the Group's management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014, in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 39 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Parent Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-2 (Group A),
March 15, 2012, valid until March 31, 2015
Tax Identification No. 152-884-691
BIR Accreditation No. 08-001998-54-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751296, January 5, 2015, Makati City

February 24, 2015

SGV
Building a better working world

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SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Security Bank Corporation
6776 Ayala Avenue
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Security Bank Corporation and Subsidiaries (the Group) as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, included in this Form Definitive IS, and have issued our report thereon dated February 24, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-2 (Group A),
March 15, 2012, valid until March 31, 2015
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February 24, 2015

SECURITY BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31			
	2014	2013	**2014**	2013
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items	**₱5,619,751**	₱4,428,863	**₱5,307,008**	₱4,196,521
Due from Bangko Sentral ng Pilipinas (Note 17)	**35,843,596**	45,583,991	**34,671,149**	45,129,263
Due from Other Banks (Notes 25 and 31)	**39,129,595**	28,739,381	**39,047,042**	28,677,516
Interbank Loans Receivable and Securities Purchased Under Resale Agreements with the Bangko Sentral ng Pilipinas (Note 31)	**–**	12,120,000	**–**	13,090,000
Financial Assets at Fair Value through Profit or Loss (Notes 6 and 9)	**10,921,822**	3,628,310	**10,919,600**	3,557,776
Financial Assets at Fair Value through Other Comprehensive Income (Note 10)	**150,780**	144,132	**70,770**	64,260
Investment Securities at Amortized Cost (Notes 11, 20 and 26)	**101,484,843**	78,514,441	**101,033,144**	78,059,356
Loans and Receivables (Notes 12 and 31)	**194,004,086**	165,241,561	**184,379,421**	155,989,703
Investments in Subsidiaries and a Joint Venture (Note 13)	**197,352**	171,829	**4,683,449**	4,683,449
Property and Equipment (Note 14)	**2,423,158**	1,974,281	**2,155,644**	1,761,152
Investment Properties (Note 15)	**1,780,886**	1,836,090	**323,655**	374,459
Deferred Tax Assets (Note 27)	**1,000,169**	743,542	**947,794**	665,160
Goodwill (Note 4)	**841,602**	841,602	**–**	–
Intangible Assets (Note 16)	**1,499,910**	1,264,531	**1,088,058**	852,519
Other Assets (Note 16)	**2,300,784**	2,309,401	**1,721,601**	1,649,113
TOTAL ASSETS	**₱397,198,334**	₱347,541,955	**₱386,348,335**	₱338,750,247
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 31)				
Demand	**₱63,120,095**	₱51,938,623	**₱62,031,928**	₱51,437,053
Savings	**116,285,207**	110,021,620	**115,354,682**	109,624,435
Time	**57,455,062**	34,046,929	**51,943,268**	28,968,727
Long-term Negotiable Certificates of Deposit	**9,952,430**	9,943,113	**9,952,430**	9,943,113
	246,812,794	205,950,285	**239,282,308**	199,973,328
Financial Liabilities at Fair Value through Profit or Loss (Notes 6 and 18)	**582,867**	784,776	**582,867**	784,776
Derivative Liabilities Designated as Hedges (Notes 12 and 19)	**58,288**	93,343	**58,288**	93,343
Bills Payable and Securities Sold Under Repurchase Agreements (Note 20)	**79,601,534**	90,112,946	**79,483,534**	90,112,899
Acceptances Payable (Note 12)	**294,373**	579,215	**294,373**	579,215
Margin Deposits and Cash Letters of Credit	**32,972**	5,901	**32,972**	5,901
Manager's and Certified Checks Outstanding	**2,156,837**	1,932,113	**2,109,174**	1,794,652
Income Tax Payable	**47,014**	41,135	**309**	–
Subordinated Note (Note 21)	**9,933,491**	–	**9,933,491**	–
Accrued Interest, Taxes and Other Expenses (Note 22)	**2,139,285**	1,528,354	**1,915,507**	1,357,069
Other Liabilities (Note 23)	**7,581,840**	4,738,904	**6,620,142**	3,920,419
TOTAL LIABILITIES	**349,241,295**	305,766,972	**340,312,965**	298,621,602

(Forward)

	Consolidated		Parent Company	
	December 31			
	2014	2013	**2014**	2013
	(Amounts in Thousands)			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital stock (Note 25)	**₱6,088,594**	₱5,023,585	**₱6,088,594**	₱5,023,585
Stock dividends distributable (Note 25)	**–**	1,004,717	**–**	1,004,717
Additional paid-in capital	**3,210,200**	3,210,200	**3,236,905**	3,236,905
Surplus reserves (Note 25)	**487,771**	395,690	**442,783**	355,400
Surplus (Notes 10 and 25)	**36,951,697**	31,011,930	**36,148,929**	30,422,996
Net unrealized gain on financial assets at fair value through other comprehensive income (Note 10)	**41,930**	35,420	**41,930**	35,420
Net unrealized gain on subsidiaries' financial assets at fair value through other comprehensive income (Note 10)	**24,851**	24,594	**–**	–
Cumulative foreign currency translation	**76,246**	49,675	**76,229**	49,622
	46,881,289	40,755,811	**46,035,370**	40,128,645
NON-CONTROLLING INTEREST (Note 13)	**1,075,750**	1,019,172	**–**	–
TOTAL EQUITY	**47,957,039**	41,774,983	**46,035,370**	40,128,645
TOTAL LIABILITIES AND EQUITY	**₱397,198,334**	₱347,541,955	**₱386,348,335**	₱338,750,247

See accompanying Notes to Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands, Except Earnings per Share)					
INTEREST INCOME ON						
Loans and receivables (Notes 12 and 31)	**₱9,308,912**	₱7,902,346	₱6,964,819	**₱8,309,935**	₱7,195,393	₱6,399,315
Financial investments (Note 7)	**5,845,888**	3,640,554	4,249,285	**5,825,738**	3,620,120	4,229,262
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas (Note 31)	**126,954**	444,935	262,853	**115,263**	433,588	229,912
Deposits with banks and others	**112,241**	343,499	96,167	**81,184**	299,192	80,383
	15,393,995	12,331,334	11,573,124	**14,332,120**	11,548,293	10,938,872
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 31)	**2,540,115**	2,196,046	1,910,335	**2,389,528**	2,071,683	1,790,262
Derivative instruments (Note 18)	**789,275**	997,826	725,526	**789,275**	997,826	725,526
Subordinated note, bills payable and securities sold under repurchase agreements and other borrowings (Notes 20 and 21)	**855,872**	656,467	756,232	**851,940**	651,672	755,411
Derivatives designated as hedges (Note 19)	**47,863**	96,911	83,434	**47,863**	96,911	83,434
	4,233,125	3,947,250	3,475,527	**4,078,606**	3,818,092	3,354,633
NET INTEREST INCOME	**11,160,870**	8,384,084	8,097,597	**10,253,514**	7,730,201	7,584,239
Gain on disposal of investment securities at amortized cost (Notes 8 and 11)	**3,079,540**	2,212,225	3,273,345	**3,079,540**	2,212,225	3,273,345
Service charges, fees and commissions (Note 29)	**1,514,891**	1,379,784	1,122,990	**719,012**	575,843	526,031
Trading and securities gain - net (Notes 6 and 8)	**515,907**	32,764	841,603	**513,988**	102,149	846,526
Profit from assets sold/exchanged (Notes 15 and 16)	**149,020**	197,292	146,471	**54,867**	64,365	110,384
Rent (Notes 15, 31 and 32)	**137,664**	140,875	92,344	**35,374**	41,187	42,760
Share in net income of a joint venture (Note 13)	**25,523**	18,389	4,508	**–**	–	–
Foreign exchange gain (loss) - net (Note 6)	**(173,926)**	(341,811)	128,169	**(188,385)**	(357,958)	116,397
Miscellaneous (Note 30)	**359,965**	288,841	319,480	**384,790**	256,386	278,269
TOTAL OPERATING INCOME	**16,769,454**	12,312,443	14,026,507	**14,852,700**	10,624,398	12,777,951
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 28 and 31)	**2,619,103**	2,316,364	1,969,926	**2,290,710**	2,010,076	1,727,536
Taxes and licenses (Note 27)	**1,011,672**	916,529	852,143	**894,980**	820,857	765,961
Provision for credit losses (Note 12)	**790,065**	128,118	247,767	**626,146**	10,410	96,991
Occupancy costs (Notes 15 and 32)	**726,379**	610,447	501,427	**585,551**	475,602	371,452
Depreciation and amortization (Note 14)	**522,625**	428,734	360,401	**424,137**	329,245	281,010
Amortization of software costs (Note 16)	**56,647**	39,442	43,632	**37,005**	26,947	27,689
Provision for (recovery of) impairment losses (Note 15)	**(35,943)**	(78,844)	27,667	**(13,309)**	(8,658)	14,095
Miscellaneous (Notes 27 and 30)	**2,989,724**	2,439,990	2,244,574	**2,284,840**	1,716,965	1,721,922
TOTAL OPERATING EXPENSES	**8,680,272**	6,800,780	6,247,537	**7,130,060**	5,381,444	5,006,656

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands, Except Earnings per Share)					
INCOME BEFORE INCOME TAX	**₱8,089,182**	₱5,511,663	₱7,778,970	**₱7,722,640**	₱5,242,954	₱7,771,295
PROVISION FOR INCOME TAX (Note 27)	**868,940**	420,206	233,245	**737,654**	305,908	139,497
NET INCOME	**₱7,220,242**	₱5,091,457	₱7,545,725	**₱6,984,986**	₱4,937,046	₱7,631,798
ATTRIBUTABLE TO:						
Equity holders of the Parent Company (Note 35)	**₱7,163,738**	₱5,011,725	₱7,515,877			
Non-controlling interest	**56,504**	79,732	29,848			
NET INCOME	**₱7,220,242**	₱5,091,457	₱7,545,725			
Basic/Diluted Earnings Per Share (Note 35)	**₱11.88**	₱8.31	₱12.47			

See accompanying Notes to Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	**₱7,220,242**	₱5,091,457	₱7,545,725	**₱6,984,986**	₱4,937,046	₱7,631,798
OTHER COMPREHENSIVE INCOME (LOSS)						
Other Comprehensive Income to be Reclassified to Profit or Loss in Subsequent Periods:						
Cumulative translation adjustments	**26,571**	90,927	(85,028)	**26,607**	90,867	(85,011)
Other Comprehensive Income Not to be Reclassified to Profit or Loss in Subsequent Periods:						
Remeasurement gains (losses) on defined benefit plans (Note 28)	**73,859**	(183,158)	350,583	**34,001**	(168,099)	328,340
Net unrealized gain (loss) on financial assets at fair value through other comprehensive income, net of tax (Note 10)	**6,763**	(15,238)	52,605	**6,510**	(9,110)	22,555
	80,622	(198,396)	403,188	**40,511**	(177,209)	350,895
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**107,193**	(107,469)	318,160	**67,118**	(86,342)	265,884
TOTAL COMPREHENSIVE INCOME	**₱7,327,435**	₱4,983,988	₱7,863,885	**₱7,052,104**	₱4,850,704	₱7,897,682
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱7,270,857**	₱4,904,252	₱7,834,089			
Non-controlling interest	**56,578**	79,736	29,796			
	₱7,327,435	₱4,983,988	₱7,863,885			

See accompanying Notes to Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY

	Consolidated										
	Years Ended December 31, 2014, 2013 and 2012										
	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 25)	**Stock Dividends Distributable** (Note 25)	**Additional Paid-in Capital**	**Surplus Reserves** (Note 25)	**Surplus** (Note 25)	**Net Unrealized Gain on Financial Assets at Fair Value through Other Comprehensive Income** (Note 10)	**Net Unrealized Gain on Subsidiaries' Financial Assets at Fair Value through Other Comprehensive Income** (Note 10)	**Cumulative Foreign Currency Translation**	**Total**	**Non-controlling Interest**	**Total Equity**
	(Amounts in Thousands)										
Balance at January 1, 2014	**₱5,023,585**	**₱1,004,717**	**₱3,210,200**	**₱395,690**	**₱31,011,930**	**₱35,420**	**₱24,594**	**₱49,675**	**₱40,755,811**	**₱1,019,172**	**₱41,774,983**
Distribution of stock dividends	**1,004,726**	**(1,004,717)**	–	–	**(9)**	–	–	–	–	–	–
Issuance of preferred shares	**60,283**	–	–	–	–	–	–	–	**60,283**	–	**60,283**
Total comprehensive income for the year	–	–	–	–	**7,237,519**	**6,510**	**257**	**26,571**	**7,270,857**	**56,578**	**7,327,435**
Transfers to surplus reserves	–	–	–	**92,081**	**(92,081)**	–	–	–	–	–	–
Declaration of cash dividends	–	–	–	–	**(1,205,662)**	–	–	–	**(1,205,662)**	–	**(1,205,662)**
Balance at December 31, 2014	**₱6,088,594**	**₱–**	**₱3,210,200**	**₱487,771**	**₱36,951,697**	**₱41,930**	**₱24,851**	**₱76,246**	**₱46,881,289**	**₱1,075,750**	**₱47,957,039**
Balance at January 1, 2013	**₱5,023,585**	₱–	₱3,210,200	₱312,363	₱28,266,149	₱44,530	₱40,701	(₱41,252)	₱36,856,276	₱939,436	₱37,795,712
Total comprehensive income for the year	–	–	–	–	4,828,552	(9,110)	(6,117)	90,927	4,904,252	79,736	4,983,988
Sale of financial assets at fair value through other comprehensive income	–	–	–	–	9,990	–	(9,990)	–	–	–	–
Transfers to surplus reserves	–	–	–	83,327	(83,327)	–	–	–	–	–	–
Declaration of stock dividends	–	1,004,717	–	–	(1,004,717)	–	–	–	–	–	–
Declaration of cash dividends	–	–	–	–	(1,004,717)	–	–	–	(1,004,717)	–	(1,004,717)
Balance at December 31, 2013	**₱5,023,585**	₱1,004,717	₱3,210,200	₱395,690	₱31,011,930	₱35,420	₱24,594	₱49,675	₱40,755,811	₱1,019,172	₱41,774,983
Balance at January 1, 2012	**₱5,023,585**	₱–	₱3,236,905	₱278,555	₱21,438,135	₱21,975	₱10,688	₱43,766	₱30,053,609	₱901,809	₱30,955,418
Total comprehensive income (loss) for the year	–	–	–	–	7,866,539	22,555	30,013	(85,018)	7,834,089	29,796	7,863,885
Transfers to surplus reserves	–	–	–	33,808	(33,808)	–	–	–	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	17,080	17,080
Effect of capital infusion and purchase of non-controlling interest	–	–	(26,705)	–	–	–	–	–	(26,705)	(9,249)	(35,954)
Declaration of cash dividends	–	–	–	–	(1,004,717)	–	–	–	(1,004,717)	–	(1,004,717)
Balance at December 31, 2012	**₱5,023,585**	₱–	₱3,210,200	₱312,363	₱28,266,149	₱44,530	₱40,701	(₱41,252)	₱36,856,276	₱939,436	₱37,795,712

See accompanying Notes to Financial Statements.

Parent Company

Years Ended December 31, 2014, 2013 and 2012

	Capital Stock (Note 25)	Stock Dividends Distributable (Note 25)	Additional Paid-in Capital	Surplus Reserves (Note 25)	Surplus (Note 25)	Net Unrealized Gain on Financial Assets at Fair Value through Other Comprehensive Income (Note 10)	Cumulative Foreign Currency Translation	Total Equity
				(Amounts in Thousands)				
Balance at January 1, 2014	**₱5,023,585**	**₱1,004,717**	**₱3,236,905**	**₱355,400**	**₱30,422,996**	**₱35,420**	**₱49,622**	**₱40,128,645**
Distribution of stock dividends	**1,004,726**	**(1,004,717)**	**–**	**–**	**(9)**	**–**	**–**	**–**
Issuance of preferred shares	**60,283**	**–**	**–**	**–**	**–**	**–**	**–**	**60,283**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**7,018,987**	**6,510**	**26,607**	**7,052,104**
Transfers to surplus reserves	**–**	**–**	**–**	**87,383**	**(87,383)**	**–**	**–**	**–**
Declaration of cash dividends	**–**	**–**	**–**	**–**	**(1,205,662)**	**–**	**–**	**(1,205,662)**
Balance at December 31, 2014	**₱6,088,594**	**₱–**	**₱3,236,905**	**₱442,783**	**₱36,148,929**	**₱41,930**	**₱76,229**	**₱46,035,370**
Balance at January 1, 2013	₱5,023,585	₱–	₱3,236,905	₱277,300	₱27,741,583	₱44,530	(₱41,245)	₱36,282,658
Total comprehensive income for the year	–	–	–	–	4,768,947	(9,110)	90,867	4,850,704
Transfers to surplus reserves	–	–	–	78,100	(78,100)	–	–	–
Declaration of stock dividends	–	1,004,717	–	–	(1,004,717)	–	–	–
Declaration of cash dividends	–	–	–	–	(1,004,717)	–	–	(1,004,717)
Balance at December 31, 2013	₱5,023,585	₱1,004,717	₱3,236,905	₱355,400	₱30,422,996	₱35,420	₱49,622	₱40,128,645
Balance at January 1, 2012	₱5,023,585	₱–	₱3,236,905	₱264,100	₱20,799,362	₱21,975	₱43,766	₱29,389,693
Total comprehensive income for the year	–	–	–	–	7,960,138	22,555	(85,011)	7,897,682
Transfers to surplus reserves	–	–	–	13,200	(13,200)	–	–	–
Declaration of cash dividends	–	–	–	–	(1,004,717)	–	–	(1,004,717)
Balance at December 31, 2012	₱5,023,585	₱–	₱3,236,905	₱277,300	₱ 27,741,583	₱44,530	(₱41,245)	₱36,282,658

See accompanying Notes to Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱8,089,182**	₱5,511,663	₱7,778,970	**₱7,722,640**	₱5,242,954	₱7,771,295
Adjustments for:						
Gain on sale of investment securities at amortized cost (Notes 8 and 11)	**(3,079,540)**	(2,212,225)	(3,273,345)	**(3,079,540)**	(2,212,225)	(3,273,345)
Unrealized market valuation loss on financial instruments at fair value through profit or loss	**247,345**	501,927	65,904	**247,345**	450,848	65,778
Depreciation and amortization (Note 14)	**522,625**	428,734	360,401	**424,137**	329,245	281,010
Profit from assets sold/exchanged (Notes 14, 15 and 16)	**(149,020)**	(197,292)	(146,471)	**(54,867)**	(64,365)	(110,384)
Provision for credit losses (Note 12)	**790,065**	128,118	247,767	**626,146**	10,410	96,991
Provision for (recovery of) impairment losses (Note 16)	**(35,943)**	(78,844)	27,667	**(13,309)**	(8,658)	14,095
Amortization of software costs (Note 16)	**56,647**	39,442	43,632	**37,005**	26,947	27,689
Amortization of transaction cost on Long-term Negotiable Certificates of Deposits (LTNCD) (Note 17)	**9,317**	8,804	5,302	**9,317**	8,804	5,301
Amortization of transaction cost on subordinated note (Note 21)	**2,483**	6,641	6,484	**2,483**	6,641	6,484
Share in net income of a joint venture (Note 13)	**(25,523)**	(18,389)	(4,508)	**–**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at FVTPL	**(7,777,822)**	17,861,548	(6,191,741)	**(7,846,134)**	17,974,617	(6,186,626)
Loans and receivables (Note 36)	**(29,584,803)**	(45,817,509)	(25,873,736)	**(29,024,618)**	(40,170,695)	(25,517,177)
Other assets	**195,991**	301,165	155,075	**3,188**	131,452	200,666
Increase (decrease) in the amounts of:						
Deposit liabilities	**40,853,192**	63,565,836	8,907,269	**39,299,663**	62,560,893	7,460,898
Acceptances payable	**(284,842)**	282,409	117,128	**(284,842)**	282,409	117,128
Margin deposits and cash letters of credit	**27,071**	(183,691)	130,397	**27,071**	(183,691)	130,397
Manager's and certified checks outstanding	**224,724**	376,394	429,853	**314,522**	280,956	407,820
Accrued interest, taxes and other expenses	**610,931**	(66,392)	(366,092)	**558,438**	(99,962)	(408,542)
Other liabilities	**2,842,049**	(628,655)	1,558,413	**2,698,758**	(585,365)	1,145,315
Net cash generated from (used in) operations	**13,534,129**	39,809,684	(16,021,631)	**11,667,403**	43,981,215	(17,765,207)
Income taxes paid	**(1,119,569)**	(562,072)	(1,016,991)	**(1,019,978)**	(470,161)	(935,272)
Net cash provided by (used in) operating activities	**12,414,560**	39,247,612	(17,038,622)	**10,647,425**	43,511,054	(18,700,479)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands)					
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Investment securities at amortized cost	**(₱124,463,389)**	(₱71,680,042)	(₱186,484)	**(₱124,466,774)**	(₱71,743,997)	(₱186,484)
Property and equipment (Note 14)	**(1,019,436)**	(1,036,850)	(582,955)	**(888,283)**	(753,851)	(524,407)
Software costs (Note 16)	**(114,378)**	(29,937)	(58,919)	**(94,011)**	(23,872)	(13,664)
Branch licenses (Note 16)	**(220,000)**	(480,000)	(300,000)	**(220,000)**	(480,000)	(300,000)
Acquisition of a subsidiary	**–**	–	–	**–**	–	(1,301,675)
Acquisition of a subsidiary, net of cash acquired	**–**	–	(273,950)	**–**	–	–
Infusion of capital to a subsidiary	**–**	–	–	**–**	–	(1,238,847)
Proceeds from:						
Sale/maturities of investment securities at amortized cost	**104,572,527**	35,274,329	20,432,683	**104,572,527**	35,274,329	20,432,683
Disposal of investment properties	**147,902**	250,792	193,923	**123,222**	144,265	150,273
Disposal of property and equipment	**101,169**	277,874	73,296	**73,959**	32,608	66,795
Sale of financial assets at fair value through other comprehensive income	**–**	15,674	–	**–**	–	–
Net cash provided by (used in) investing activities	**(20,995,605)**	(37,408,160)	19,297,594	**(20,899,360)**	(37,550,518)	17,084,674
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills payable and securities sold under repurchase agreements	**4,904,119,261**	3,111,469,036	7,019,501,584	**4,903,041,268**	3,110,722,849	7,017,764,575
Settlements of bills payable and securities sold under repurchase agreements	**(4,914,630,673)**	(3,086,334,438)	(7,006,731,081)	**(4,913,670,633)**	(3,085,439,064)	(7,004,917,432)
Proceeds from issuance of LTNCD (Note 17)	**–**	–	9,929,008	**–**	–	9,929,008
Proceeds from issuance of subordinated note (Note 21)	**9,931,008**	–	–	**9,931,008**	–	–
Settlement of subordinated note	**–**	(3,000,000)	–	**–**	(3,000,000)	–
Cash paid for the acquisition of non-controlling interest	**–**	–	(35,954)	**–**	–	(35,954)
Proceeds from issuance of preferred shares (Note 25)	**60,283**	–	–	**60,283**	–	–
Cash dividends paid (Note 25)	**(1,204,698)**	(1,001,342)	(1,003,926)	**(1,204,698)**	(1,001,342)	(1,003,926)
Net cash provided by (used in) financing activities	**(1,724,819)**	21,133,256	21,659,631	**(1,842,772)**	21,282,443	21,736,271
Effect of exchange rate changes on cash and cash equivalents	**26,571**	90,927	(85,028)	**26,606**	90,867	(85,011)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(10,279,293)**	23,063,635	23,833,575	**(12,068,101)**	27,333,846	20,035,455

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2014	2013	2012	**2014**	2013	2012
	(Amounts in Thousands)					
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**₱4,428,863**	₱3,372,558	₱2,315,588	**₱4,196,521**	₱3,184,189	₱2,315,359
Due from Bangko Sentral ng Pilipinas	**45,583,991**	21,779,290	15,936,205	**45,129,263**	18,094,655	15,936,205
Due from other banks	**28,739,381**	25,406,752	20,573,232	**28,677,516**	25,230,610	20,322,435
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	**12,120,000**	17,250,000	5,150,000	**13,090,000**	17,250,000	5,150,000
	90,872,235	67,808,600	43,975,025	**91,093,300**	63,759,454	43,723,999
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 36)						
Cash and other cash items	**5,619,751**	4,428,863	3,372,558	**5,307,008**	4,196,521	3,184,189
Due from Bangko Sentral ng Pilipinas	**35,843,596**	45,583,991	21,779,290	**34,671,149**	45,129,263	18,094,655
Due from other banks	**39,129,595**	28,739,381	25,406,752	**39,047,042**	28,677,516	25,230,610
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	**–**	12,120,000	17,250,000	**–**	13,090,000	17,250,000
	₱80,592,942	₱90,872,235	₱67,808,600	**₱79,025,199**	₱91,093,300	₱63,759,454

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest received	**₱14,399,926**	₱11,616,745	₱12,038,467	**₱13,338,188**	₱10,867,786	₱11,439,302
Interest paid	**3,858,993**	3,942,287	3,424,674	**3,709,417**	3,805,612	3,322,925
Dividends received	**16,557**	19,045	4,938	**14,924**	17,501	3,474

See accompanying Notes to Financial Statements.

1. **Corporate Information**

Security Bank Corporation (the Parent Company) is a domestic corporation registered with the Securities and Exchange Commission (SEC) in 1951 and was listed in the Philippine Stock Exchange (PSE) in 1995. The Parent Company's head office is located at 6776 Ayala Avenue, Makati City.

The Parent Company was incorporated on May 8, 1951 and started its operations as a commercial bank on June 18, 1951. On May 30, 2000, the Board of Directors (BOD) of the Parent Company approved its Amended Articles of Incorporation to extend the corporate term of the Parent Company, which expired on May 8, 2001, for another 50 years. On February 19, 2001, the SEC approved such amendment.

In 1994, it was approved by the Bangko Sentral ng Pilipinas (BSP) to operate as a universal bank, allowing it to expand its financial services and revenue sources.

The Parent Company provides expanded commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. In addition, the Parent Company is licensed to engage in financial derivatives to service the requirements of its customers and as a means of reducing and managing the Parent Company's foreign exchange and interest rate exposures.

The Parent Company and its subsidiaries (collectively referred to as the "Group"), which are all incorporated in the Philippines, are engaged in the following businesses:

Subsidiaries	Effective Percentage of Ownership	Line of Business
SB Capital Investment Corporation (SBCIC)	100.00	Investment house
SB Equities, Inc. (SBEI)	100.00	Stock brokerage
SB International Services, Inc. (SISI) (pre-operating stage)	100.00	Marketing services
SB Rental Corporation (SBRC)*	100.00	Rental / leasing
SB Cards Corporation (SBCC)	100.00	Credit card operations
Landlink Property Investments (SPV-AMC), Inc. (LPII) (pre-operating stage)	100.00	Asset management
SB Forex, Incorporated (SBFI) (suspended operation)	100.00	Foreign exchange services
Security Bank Savings Corporation (SBS) (formerly Premiere Development Bank)	99.54	Thrift bank
Security Land Corporation (SLC)	51.81	Real estate
Security-Philam Financial Solutions and Insurance Agency, Inc. (SPFSIAI) (for liquidation)	50.00	Insurance agency

**On December 23, 2013, the Board of Directors of SBCIC approved the incorporation of SBRC, which was registered with the SEC on January 13, 2014.*

The Parent Company is the Ultimate Parent Company of the Group.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements include the financial statements of the Parent Company and its subsidiaries.

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVTOCI) that have been measured at fair value. The carrying values of recognized loans and receivables that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The financial statements are presented in Philippine pesos and all values are rounded to the nearest thousand peso (₱000) except when otherwise indicated.

The financial statements of the Parent Company and SBS include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and United States dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso, which is the Parent Company's presentation currency (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and the items included in the financial statements of each entity are measured using that functional currency. The functional currency of each of the Parent Company's subsidiaries is the Philippine peso.

Statement of Compliance

The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements of the Group are prepared for the same reporting period as the subsidiaries, using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and

- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies used in line with those used by the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

<u>Non-controlling Interest</u>
Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company.

<u>Changes in Accounting Policies</u>
Except for the following standards and amended PFRS which were adopted as of January 1, 2014, the accounting policies and methods of computation adopted in the preparation of the financial statements are consistent with those followed in the previous financial year. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group.

Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and Philippine Accounting Standard (PAS) 27, *Separate Financial Statements*)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

Philippine Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact to the Group as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements to PFRS (2010-2012 cycle)
In the 2010-2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

Annual Improvements to PFRS (2011-2013 cycle)
In the 2011-2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

Fair Value Measurement
For measurement and disclosure purposes, the Group determines the fair value of an asset or liability at initial measurement or at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of significant nonfinancial assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 6).

Financial Instruments - Initial Recognition

Date of recognition

Regular way purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market, except for derivatives, are recognized on the settlement date. Settlement date is the date on which the transaction is settled by delivery of the assets that are the subject of the agreement. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group. Deposits, amounts due to banks and customers, loans and receivables and spot transactions are recognized when cash is received by the Group or advanced to the borrowers.

Derivatives are recognized on trade date - the date that the Group becomes a party to the contractual provisions of the instrument. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value plus any directly attributable cost of acquisition or issue, except in the case of financial assets and financial liabilities at FVTPL.

'Day 1' difference

Where the transaction price is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group immediately recognizes the difference between the transaction price and the fair value of the instrument (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification and Measurement of Financial Assets

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' from the point of view of the issuer (under PAS 32), except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial instruments are 'debt instruments'.

Financial assets at amortized cost

Debt financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amount.

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment in value, with the interest calculated recognized as 'Interest income' in the statement of income. The Group classified 'Cash and other cash items (COCI)', 'Due from BSP',

'Due from other banks', 'Interbank loans receivable and Securities purchased under resale agreements (SPURA) with the BSP', 'Investment securities at amortized cost', 'Loans and receivables', and cash collateral deposits (included under 'Other assets') as financial assets at amortized cost.

Loans and receivables include receivables arising from transactions on credit cards issued directly by the Parent Company and SBCC which have tie-up arrangements with MasterCard and Diners Club, Inc. (DCI), respectively.

The Group may irrevocably elect at initial recognition to classify a debt financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the debt financial asset been measured at amortized cost. As of December 31, 2014 and 2013, the Group has not made such designation.

Financial assets at FVTOCI
At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Equity investments as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in 'Net unrealized gain on financial assets at FVTOCI' in the statement of financial position. Where the asset is disposed of, the cumulative gain or loss previously recognized in 'Net unrealized gain on financial assets at FVTOCI' is not reclassified to profit or loss, but is reclassified to surplus.

As of December 31, 2014 and 2013, the Group has designated certain equity instruments that are not held for trading as at FVTOCI on initial application of PFRS 9 (see Note 10).

Dividends earned on holding these equity instruments are recognized in the statement of income when the Group's right to receive the dividends is established in accordance with PAS 18, *Revenue*, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized under 'Miscellaneous income' in the statement of income.

Financial assets at FVTPL
Debt financial assets that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss.

Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition.

The Group's financial assets at FVTPL include government securities, private bonds and equity securities held for trading purposes, debt and hybrid instruments that do not meet the amortized cost criteria, and equity investments not designated as at FVTOCI.

As of December 31, 2014 and 2013, the Group has not designated any debt instrument that meets the amortized cost criteria as at FVTPL.

Financial assets at FVTPL are carried at fair value, and gains and losses on these instruments are recognized as 'Trading and securities gain - net' in the statement of income. Interest earned on these investments is reported in the statement of income under 'Interest income' while dividend income is reported in the statement of income under 'Miscellaneous income' when the right of payment has been established. Quoted market prices, when available, are used to determine the fair value of these financial instruments. If a financial asset at FVTPL has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value. If quoted market prices are not available, their fair values are estimated based on market observable inputs. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the Philippine Dealing System (PDS) closing rate at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss. For financial assets classified as at FVTPL, the foreign exchange component is recognized in the statement of income. For financial assets designated as at FVTOCI, any foreign exchange component is recognized in OCI. For foreign currency denominated debt instruments classified as at amortized cost, the foreign exchange gains and losses are determined based on the amortized cost of the asset and are recognized in the statement of income.

Derivative instruments
The Parent Company uses derivative instruments such as cross-currency swaps, interest rate swaps, foreign currency forward contracts, options on foreign currencies and bonds, and warrants. These derivatives are entered into as a service to customers and as a means for reducing or managing the Parent Company's respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative instruments are initially recorded at fair value and carried as financial assets at FVTPL when their fair value is positive and as financial liabilities at FVTPL when their fair value is negative.

Any gains or losses arising from changes in fair value of derivative instruments (except for foreign currency forwards) are recognized as 'Trading and securities gain - net'. For currency forwards, changes in fair value are recognized in 'Foreign exchange gain (loss) - net' in the statement of income.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of PFRS 9 (2010) (e.g., financial liabilities and non-financial host contracts) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

The Group assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs re-assessment only where there is a change to the contract that significantly modifies the contractual cash flows.

As of December 31, 2014 and 2013, the Parent Company's hybrid financial instruments are classified as at FVTPL (see Note 9).

Reclassification of financial assets
The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows meet the amortized cost criteria.

Reclassification of financial assets designated as at FVTPL at initial recognition is not permitted.

A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

<u>Impairment of Financial Assets</u>
The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence as a result of one or more events that had occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a. *Financial assets carried at amortized cost (other than credit card receivables and certain consumer loans)*
   The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in 'Provision for credit losses' in the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write off is later recovered, the recovery is credited to 'Provision for credit losses' in the statement of income.

If the Group determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

For the purpose of a collective assessment of impairment, financial assets are grouped on the basis of the industry of the borrower. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for the assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b. *Credit card receivables and certain consumer loans*
The Group's receivables from credit cardholders and certain consumer loans are assessed for impairment collectively because these receivables are not individually significant. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from account-level monitoring of monthly peso movements between different age buckets, from 1 day past due to 180 days past due. The net flow to write-off methodology relies on the historical data of net flow tables to establish a percentage ('net flow rate') of receivables that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of these receivables from credit cardholders and consumer loans as of the statement of financial position date and the net flow rates determined for the current and each delinquency bucket. The carrying amounts of receivables from credit cardholders and certain consumer loans are reduced for impairment through the use of an allowance account.

c. *Restructured loans*
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered as past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues to be subject to an individual impairment calculated using the original EIR or collective impairment.

Financial Liabilities
Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities held for trading include:
- derivative liabilities that are not accounted for as hedging instruments;
- obligations to deliver financial assets borrowed by a short seller (i.e., an entity that sells financial assets it has borrowed and does not yet own);

- financial liabilities that are incurred with an intention to repurchase them in the near term (e.g., a quoted debt instrument that the issuer may buy back in the near term depending on changes in its fair value); and
- financial liabilities that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

Management may designate a financial liability as at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value of financial instruments are recorded in 'Trading and securities gain - net' in the statement of income. Interests incurred are recorded in 'Interest expense' in the statement of income using the effective interest method.

Bills payable and other borrowed funds
Bills payable and other borrowed funds are issued financial instruments or their components, which are not financial liabilities at FVTPL. They are classified as such when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, bills payable and similar financial liabilities not qualified as and not recognized as financial liabilities at FVTPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset, but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Financial Guarantees
In the ordinary course of business, the Parent Company gives financial guarantees. Financial guarantees are initially recognized in the financial statements at fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortized amount and the present value of any expected payment (when a payment under the guaranty has become probable).

Hedge Accounting
The Parent Company makes use of derivative instruments to manage exposures to interest rate risks, and applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Parent Company formally designates and documents the relationship between the hedged item and the hedging instrument, including the nature of the risk being hedged, the objective and strategy for undertaking the hedge, and the method that will be used to assess the effectiveness of the hedging relationship. Also, a formal assessment is undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is expected to be highly effective if the cumulative change in the fair value of the hedging instrument during the period is expected to offset the cumulative change in the fair value attributable to the hedged risk of the hedged item by 80.00% to 125.00%.

Fair value hedges
For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized under 'Trading and securities gain - net' in the statement of income. Meanwhile, the change in the fair value of the hedged item attributable to the hedged risk is recorded as part of the carrying value of the hedged item and is also recognized in 'Trading and securities gain - net' in the statement of income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the hedged item using the effective interest method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the statement of income.

As of December 31, 2014 and 2013, the Parent Company has outstanding interest rate swaps designated as effective hedging instruments in a fair value hedge (see Note 19).

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of 'COCI', 'Due from BSP and other banks', and 'Interbank loans receivable and SPURA with the BSP' that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Due from BSP includes the statutory reserves required by the BSP which the Parent Company considers as cash equivalents wherein drawings can be made to meet cash requirements.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as 'Securities sold under repurchase agreements (SSURA)', reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The corresponding cash paid, including accrued interest, is recognized in the statement of financial position as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Foreign Currency Translation

Transactions and balances

For financial reporting purposes, the foreign currency-denominated assets and liabilities in the RBU are translated into their equivalents in Philippine pesos based on the PDS closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rate at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign-currency denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU

As at the reporting date, the assets and liabilities of the FCDU of the Parent Company and SBS are translated into the Parent Company's presentation currency (the Philippine Peso) at PDS closing rate prevailing at the statement of financial position date, and its income and expenses are translated at PDS weighted average rate (PDSWAR) for the year. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Investments in Subsidiaries and a Joint Venture

Investment in subsidiaries

Subsidiaries pertain to all entities over which the Group has control. Investments in subsidiaries in the Parent Company's separate financial statements are accounted for under the cost method of accounting. Dividends received are reported as dividend income when the right to receive the payment is established.

Interest in a joint venture

A joint venture is a type of joint arrangement where the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group's investment in a joint venture represents its 60.00% interest in SBML.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of the investee is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of income under 'Share in net income of a joint venture' and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each statement of financial position date, the Group determines whether there is objective evidence that the investment in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss in the statement of income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

In the Parent Company financial statements, investments in a joint venture are carried at cost less allowance for impairment losses.

Interest in a joint operation
A joint operation involves the use of assets and other resources of the Group and other venturers rather than the establishment of a corporation, partnership or other entity. The Group accounts for the assets it controls and the liabilities and expenses it incurs, and the share of the income that it earns from the sale of goods, properties or services by the joint operation. The assets contributed to the joint venture are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

SLC has an interest in a joint operation with Robinsons Land Corporation (RLC), whereby it contributed a parcel of land for development into residential and commercial units (see Note 16).

Property and Equipment
Land is stated at cost less any impairment in value. Depreciable properties including building and improvements, furniture, fixtures and equipment, transportation equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statement of income.

Depreciation is computed using the straight-line method based on the estimated useful life (EUL) of the depreciable assets. The range of EUL of property and equipment follows:

	Years
Building and improvements	5-30
Furniture, fixtures and equipment	1-10
Transportation equipment	5-10

Leasehold improvements are amortized over the EUL of 5 years of the improvements or the terms of the related leases, whichever is shorter.

The EUL and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income. Foreclosed properties are classified under 'Investment properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Real properties acquired

Depreciable real properties acquired are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value. Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the cost of the real properties acquired.

The Group applies the cost model in accounting for investment properties. Depreciation is computed on a straight-line basis over the EUL of 10 years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of real properties acquired.

The carrying values of the real properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Investments in real estate

Investments in real estate consist of investments in land and building. Investments in land are carried at cost less impairment in value. Building is carried at cost less accumulated depreciation and impairment in value. All costs that are directly attributable to the acquisition and development of property are capitalized, including borrowing costs incurred to finance the property development. Depreciation is computed on a straight-line basis over 10-15 years.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal as 'Profit from assets sold/exchanged'.

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. The Group applies the cost model in accounting for other properties acquired. Under the cost model, these assets are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment in value.

Depreciation is computed on a straight-line basis over the EUL of 3 years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of the other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

An item of other properties acquired is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income as 'Profit from assets sold/exchanged' in the year the asset is derecognized.

Intangible Assets

Intangible assets consist of software costs, exchange trading right and branch licenses. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Software costs

Costs related to software purchased by the Group for use in operations are amortized on a straight-line basis over 2 to 5 years. The amortization period and the amortization method for software cost are reviewed periodically to be consistent with the changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset. The amortization expense on software costs is recognized in the statement of income.

Exchange trading right

The exchange trading right of SBEI is an intangible asset regarded as having an indefinite useful life as there is no foreseeable limit to the period over which this asset is expected to generate cash inflows. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the Philippine Stock Exchange shares) less impairment in value. SBEI does not intend to sell the exchange trading right in the near future.

Branch licenses

Branch licenses have been acquired and granted by the BSP and capitalized on the basis of the cost incurred to acquire and bring to use in operation. Branch licenses are determined to have indefinite useful lives and are tested for impairment annually.

The carrying values of intangible assets with definite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in 'Miscellaneous expense' in the statement of income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it is not remeasured and subsequent settlement is accounted for within equity.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of fair value of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of income.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs or a group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with PFRS 8.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the statement of income.

Impairment of Nonfinancial Assets

Nonfinancial assets include property and equipment, investment properties, investment in subsidiaries and a joint venture, software costs, goodwill, exchange trading right, branch licenses and other properties acquired.

Property and equipment, investments in subsidiaries and a joint venture, investment properties, and other properties acquired

The Group assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less cost to sell and its value in use (VIU). Where the

carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Any impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Intangible assets - branch licenses, exchange trading right and software costs
Intangible assets with indefinite useful lives are tested for impairment annually at each statement of financial position date either individually or at the cash generating unit level, as appropriate or when circumstances indicate that the intangible asset may be impaired. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Goodwill
Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

<u>Income Taxes</u>
Current tax
Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Deferred tax
Deferred tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward of unused MCIT and unused NOLCO can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue Recognition

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group has concluded that it is acting as principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Interest income
Interest on financial instruments measured at amortized cost and interest-bearing financial assets at FVTPL and Held-for-trading (HFT) investments are recognized based on the effective interest method of accounting.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Group estimates cash flows from the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Service charges and penalties
Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectibility.

Fees and commissions

a. *Fee income earned from services that are provided over a certain period of time*
   Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. However, loan commitment fees for loans that are likely to be drawn are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.

   Fees received in connection with the issuance of credit cards are deferred and amortized on a straight-line basis over the period the cardholder is entitled to use the card.

b. *Fee income from providing transaction services*
   Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Trading and securities gain - net
Results arising from trading activities including all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL, derivatives, gains and losses from disposal of investment securities at amortized cost and any ineffectiveness recognized on accounting hedges. Costs of investment securities sold are determined using the weighted average cost method.

Dividend income
Dividend income is recognized when the Group's right to receive the payment is established.

Rental income
Rental income arising on leased premises is accounted for on a straight-line basis over the lease terms on ongoing leases.

Discounts earned and awards revenue on credit cards
Discounts received are taken up as income upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit card companies' cardholders when the Group is acting as an acquirer. These discounts are computed based on certain agreed rates and are deducted from the amounts remitted to the member establishments. Discounts earned are net of service fees, which represent interchange fees charged by the other DCI issuers for purchases made by the cardholders of the other DCI issuers in the Philippines.

Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated between the award credits and the other components of the sale. Income generated from customer loyalty programmes is recognized in 'Service charges, fees and commissions' in the statement of income.

Real estate revenue
Real estate revenue pertains to the sale of residential condominium units being developed under a joint operation entered into by the Group, whereby the Group contributed parcels of land to be developed by its joint operation counterparty into residential condominium units.

Real estate revenue is accounted for using the percentage-of-completion method. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally in relation to cost incurred to date over the total cost of the project. The Group recognizes real estate revenue under 'Profit from assets sold/exchanged' in the statement of income.

When a sale of real estate does not meet the requirements for revenue recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized, and the receivable from the buyer is not recorded. The real estate inventories are included under 'Other assets' as 'Land held for sale' and the related liability as deposits or advances from customers included under 'Other liabilities' in the statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate inventory sold before the completion of the development is determined on the basis of the acquisition cost of the land.

Other income
Income from the sale of services is recognized upon completion of service. Income from sale of properties is recognized upon completion of earnings process and the collectibility of the sales price is reasonably assured under 'Profit from assets sold/exchanged' in the statement of income.

Expense Recognition
Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Operating expenses
Operating expenses constitute costs which arise in the normal business operation and are recognized when incurred.

Taxes and licenses
This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized when incurred.

Pension Cost
The Parent Company and certain subsidiaries have a noncontributory defined benefit plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Group's retirement cost is determined using the projected unit credit method. The retirement cost is generally funded through payments to a trustee-administered fund, determined by periodic actuarial calculations.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as interest income or expense in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise and are closed to surplus at the end of the year. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term. Contingent rents are recognized as an expense in the period in which they are incurred.

Group as lessor

Finance leases where the Group transfers substantially all the risks and benefits incidental to the ownership of the leased item to the lessee are included in the statement of financial position under ‘Loans and receivables’. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in ‘Interest income’ in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as ‘Interest expense’ in the statement of income.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Debt Issue Costs
Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the carrying amount of the debt instrument in the statement of financial position.

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method calculated in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing the net income for the year attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares.

Equity
'Capital stock' is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital'. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital'. If the additional paid-in capital is not sufficient, the excess is charged against 'Surplus'.

When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

'Surplus' represents accumulated earnings of the Group less dividends declared.

Dividends on Common Shares and Preferred Shares
Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company and the BSP, while stock dividends are deducted from equity when approved by the BOD, shareholders of the Parent Company and the BSP. Dividends declared during the year but are approved by the BSP after the statement of financial position date are dealt with as a subsequent event.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. If the Group changes the structure of its internal organization in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be

restated unless the information is not available and the cost to develop it would be excessive. Financial information on business segments is presented in Note 34.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Events after the Reporting Period
Any post-year-end event that provides additional information about the Group's position at the statement of financial position date (adjusting event) is reflected in the financial statements. Any post-year-end events that are not adjusting events are disclosed when material to the financial statements.

Standards Issued but Not Yet Effective
Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

Effective in 2015
PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRS (2010-2012 cycle)
The Annual Improvements to PFRS (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group, unless otherwise stated. They include:

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:
- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRS (2011-2013 cycle)
The Annual Improvements to PFRS (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group, unless otherwise stated. They include:

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective in 2016
PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must

apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRS (2012-2014 cycle)
The Annual Improvements to PFRS (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group, unless otherwise stated. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits - Regional Market Issue regarding Discount Rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective in 2018
PFRS 9, *Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is currently assessing the impact of adopting this standard.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group will quantify this effect to

present a comprehensive picture of the impact of adoption on the financial position or performance of the Group.

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Mandatory Date Yet to be Determined
Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

a. *Going concern*
   The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

b. *Leases*
Operating Lease
Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased and so accounts for the contracts as operating leases.

Group as lessee
The Group has entered into leases on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreements (i.e. the lease does not transfer ownership of the asset to the lessee by the end of the lease term and the lease term is not for the major part of the asset's economic life), that the lessor retains all significant risks and rewards of the ownership of these properties and so accounts for these contracts as operating leases.

Finance lease
Group as lessor
The Group has determined based on an evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset, lease term is for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

c. *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recognized or disclosed in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

d. *Embedded derivatives*
Where a hybrid instrument is not a financial asset or financial liability within the scope of PFRS 9, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

e. *Business model test*
The Group manages its financial assets based on a business model that maintains adequate level of financial assets to match expected cash outflows while maintaining a strategic portfolio of financial assets for trading activities.

The Group's business model can be to hold financial assets to collect HTC contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if

more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers, among other factors, the following:

a. disposal of instruments that no longer meet the Group's investment policy (i.e., credit rating falls below the approved investments criteria for the business model);
b. disposal for unanticipated capital expenditure needs;
c. sales of financial assets to reflect the change in expected timing of payouts;
d. sales which are so close to maturity (e.g., less than three months) or the security's call date that changes in market rate of interest would not have a significant effect on the security's fair value;
e. sales that occur after the Group has substantially collected all of the original principal through scheduled payments or prepayments;
f. sales attributable to an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonably anticipated;
g. sales attributable to a change in tax law that eliminates or significantly reduces the tax exempt status of the interest on the security;
h. sales attributable to major combination or major disposition that necessitates the sale of securities to maintain the Group's interest rate risk position or credit risk policy;
i. sales attributable to a change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of particular investments;
j. sales attributable to a significant increase in regulatory capital requirements;
k. sales attributable to a significant increase in risk weights of securities used for regulatory risk-based capital purposes; and
l. sales attributable to the changes in the payment structure as initiated by the creditor (e.g., bond swap or exchange, options, changes in tenor and other related debt restructuring).

As discussed in Note 11, the Parent Company participated in the cash tender offer executed by the Republic of the Philippines and also sold certain investment securities under the HTC business model in 2014. The Parent Company assessed that these disposals are consistent with the allowed disposals under its HTC business model.

As discussed in Note 11, the Parent Company decided to dispose certain US dollar-denominated government securities managed under the HTC business model in 2013. The Parent Company assessed that these disposals are consistent with the allowed disposals under its HTC business model.

On various dates in 2014, SBS sold, on a without recourse basis, certain corporate and small business loans to the Parent Company. The Parent Company classified these loans under the HTC business model. At the consolidated level, the business model for all loans and receivables remain to be HTC (see Note 12).

On various dates in 2013, the Parent Company sold to SBS on a without recourse basis its entire portfolio of personal loans, home loans/residential mortgages and auto loans to consolidate all consumer financing activities under SBS. The Parent Company believes that the sale does not put into question the amortized cost accounting for its remaining portfolio of loans and receivables as the sale to SBS is a result of a change in business strategy. At the consolidated level, the business model for all loans and receivables remain to be HTC (see Note 12).

In 2013, the Parent Company decided to increase its investment in Peso-denominated government securities to accommodate the unanticipated expansion in its core peso current and savings accounts (CASA) deposits arising from the restricted access to the BSP's Special Deposit Account (SDA). The Parent Company assessed that this portfolio is managed under the HTC business model (see Notes 8 and 11).

f. *Cash flow characteristics test*
Where the financial assets are classified as at amortized cost, the Group assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

g. *Contingencies*
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based on an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 33).

h. *Functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:
a) the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b) the currency in which funds from financing activities are generated; and
c) the currency in which receipts from operating activities are usually retained.

i. *Consolidation and joint arrangements*
The Group has determined that it controls and consolidates the subsidiaries in which it owns majority of the shares.

The Group has a Joint Venture Agreement (JVA) with Marubeni Corporation (Marubeni) where it owns 60.0% of SBML. Under the JVA, the parties agreed to use SBML as a joint venture entity and requires the unanimous consent of both the Parent Company and Marubeni for any significant decisions made in the ordinary course of business of SBML. The Group has (after considering the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement and the Group's rights and obligations arising from the arrangement) classified its interest in SBML under PFRS 11. Based on the foregoing, it continues to accounts for its in investment in SBML using the equity method.

j. *Distinction between 'Land held for sale' and 'Investment properties'*
The Group determines whether a property will be classified as 'Land held for sale' or 'Investment properties'. In making this judgment, the Group considers whether the property

will be sold in the normal course of business ('Land held for sale'), or whether it will be retained as part of the Group's rental and capital appreciation strategies ('Investment properties').

Estimates

a. *Fair value of financial instruments*
The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques such as discounted cash flow analysis and standard option pricing models for some derivative instruments. Where valuation techniques are used to determine fair values, they are reviewed by qualified personnel independent of the area that created them. All financial models are reviewed before they are used and to the extent practicable, financial models use only observable data, however, areas such as credit risk (both own and counterparty) volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 6 for the fair value measurements of financial instruments.

b. *Impairment of financial assets at amortized cost*
The Group reviews its individually significant financial assets classified as at amortized cost at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the counterparty's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the recognized impairment loss.

Financial assets that have been assessed individually and found not to be impaired and all individually insignificant financial assets are then assessed collectively, in groups of assets with similar characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the financial asset portfolio, concentrations of risks and economic data.

The carrying values of investment securities at amortized cost and loans and receivables and the related allowance for credit losses of the Group and the Parent Company, as applicable, are disclosed in Notes 11 and 12.

c. *Recognition of deferred tax assets*
The Group reviews the carrying amounts of deferred tax assets at each statement of financial position date and reduces it to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies. The recognized net deferred tax assets and unrecognized deferred tax assets of the Group and the Parent Company are disclosed in Note 27.

d. *Impairment of nonfinancial assets*
Investments in subsidiaries and a joint venture and other nonfinancial assets
The Parent Company and SBCIC assess impairment on its investments in subsidiaries and a joint venture, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Parent Company and SBCIC consider important which could trigger an impairment review on its investments

include the following:
- Deteriorating or poor financial condition;
- Recurring net losses; and
- Significant changes with an adverse effect on the subsidiary or associate have taken place during the period, or will take place in the near future, the technological, market, economic, or legal environment in which the subsidiary operates.

The Group assesses impairment on other nonfinancial assets (i.e., Property and equipment, Investment properties, Software costs, Exchange trading right, Branch licenses and Other properties acquired) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired nonfinancial assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is computed based on the higher of the asset's fair value less cost to sell or VIU. Recoverable amounts are estimated for individual nonfinancial assets or, if it is not possible, for the CGU to which the nonfinancial asset belongs.

The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

As of December 31, 2014 and 2013, the carrying values of the Parent Company's investments in subsidiaries and a joint venture and the related allowance for impairment losses are disclosed in Note 13.

The carrying values of the Group's and Parent Company's nonfinancial assets (other than 'Goodwill') follow:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Property and equipment (Note 14)	**₱2,423,158**	₱1,974,281	**₱2,155,644**	₱1,761,152
Investment properties (Note 15)	**1,780,886**	1,836,090	**323,655**	374,459
Branch licenses (Note 16)	**1,360,000**	1,140,000	**1,000,000**	780,000
Software costs (Note 16)	**131,410**	116,031	**88,058**	72,519
Land held for sale (Note 16)	**336,926**	445,297	**–**	–
Other properties acquired (Note 16)	**30,020**	19,290	**–**	166
Exchange trading right (Note 16)	**8,500**	8,500	**–**	–

The provision for (recovery of) impairment losses on nonfinancial assets of the Group and Parent Company are disclosed in Note 15.

Goodwill
Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the

goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income.

The carrying value of goodwill is disclosed in Note 4.

e. *Estimated useful lives of property and equipment, investment properties, software costs and other properties acquired*
The Group reviews on an annual basis the estimated useful lives of property and equipment, depreciable investment properties, software costs and other properties acquired based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment, depreciable investment properties, software costs and other properties acquired would decrease their respective balances and increase the recorded depreciation and amortization expense.

The carrying values of depreciable property and equipment, investment properties, software costs and other properties acquired are as follows:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Property and equipment (Note 14)*	**₱2,045,916**	₱1,610,771	**₱1,833,451**	₱1,446,887
Investment properties (Note 15)*	**202,029**	218,604	**10,553**	24,330
Software costs (Note 16)	**131,410**	116,031	**88,058**	72,519
Other properties acquired (Note 16)	**30,020**	19,290	**–**	166

**Excludes land*

f. *Pension benefits*
The cost of defined benefit pension plans and other post employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The present value of the defined benefit obligation of the Group and the Parent Company are disclosed in Note 28.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates.

Further details about the assumptions used are provided in Note 28.

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. As of December 31, 2014 and 2013, accrual of the Group for other employee benefit obligations and expenses included under 'Accrued other expenses payable' (included under 'Accrued interest, taxes and other expenses' in the statements of financial position) amounted to ₱429.1 million and ₱437.3 million, respectively (see Note 22).

4. Goodwill

Impairment Testing of Goodwill

Goodwill acquired through business combination has been allocated to SBS as the CGU. As of December 31, 2014 and 2013, the carrying amount of goodwill amounted to ₱841.6 million and there was no impairment loss recognized in 2014 and 2013.

The recoverable amount of SBS has been determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows. Future cash flows and growth rates were based on experiences and strategies developed and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities. In 2014 and 2013, the post-tax discount rate applied to cash flow projections is 9.40% and 10.46%, respectively, while the growth rate used to extrapolate cash flows beyond the five-year period is 3.00% for both years.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

5. Financial Risk Management Objectives and Policies

Introduction

Integral to the Parent Company's value creation process is risk management. It therefore operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market, liquidity and operational risks. Exposures across these risk areas are regularly identified, measured, controlled, monitored and reported to both Senior Management and the BOD.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These risks are monitored through the Parent Company's strategic planning process.

Risk Management Structure

Board of Directors

The BOD directs the Parent Company's over-all risk management strategy. The risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. The BOD performs an oversight function on the Parent Company's implementation of its risk policies through various committees that it has created, as follows:

Executive Committee
The Executive Committee approves credit risk limit for large exposures except for directors, officers, stockholders and related interests (DOSRI) loans which are approved by the BOD regardless of amount.

Loan Restructuring Committee
The Loan Restructuring Committee focuses on substandard or nonperforming loans (NPLs) and approves the remedial strategy and action plan for large exposures.

Audit Committee
The Audit Committee through the Internal Audit Department provides the independent assessment of the overall effectiveness of, and compliance with the Parent Company's risk management policies and processes.

Risk Oversight Committee
The Risk Oversight Committee (ROC) reviews, approves, and ensures effective implementation of the risk management framework. It approves risk-related policies, oversees limits to discretionary authority that the BOD delegates to management, and evaluates the magnitude, distribution and direction of risks in the Parent Company.

The Parent Company's organizational structure includes the Risk Management Group (RMG), which is responsible for driving the following risk management processes of the Group:

- Independent assessment, measurement, monitoring and reporting of the Group's risk-taking activities; and
- Formulation, review and recommendation of risk related policies.

Nevertheless, the Group's risk management framework adopts the basic tenet that risks are owned by the respective business and process owners. Everyone in the organization is therefore expected to proactively manage the risks inherent to their respective area by complying with the Group's risk management framework, policies and standards.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management procedures but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group.

Risk Measurement and Reporting
The Parent Company's risks are measured using various methods compliant with Basel III standards. The Parent Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Parent Company. These limits reflect the business strategy and market environment of the Parent Company as well as the level of risk that the Parent Company is willing to accept. In addition, the Parent Company monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

For all levels throughout the Parent Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. These reports include aggregate credit exposure, credit metric forecasts, limit exceptions, Value-at-Risk (VaR), liquidity ratios and risk profile changes.

For credit risk, detailed reporting of risks per industry, customer and risk rating and cover takes place. Senior management assesses the appropriateness of allowance for credit losses on a yearly basis or as the need arises. The ROC and the heads of the concerned business units receive a comprehensive credit risk report once every quarter which is designed to provide all the necessary information to assess and conclude on the credit risks of the Parent Company.

In the case of market risk, a monthly report is presented to the ROC on the utilization of market limits and liquidity, plus any other risk developments.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the BOD, the ROC, and the head of each business unit.

Risk Mitigation

As part of its market risk management, the Parent Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

In accordance with the Parent Company's policy, the risk profile of the Parent Company is assessed before entering into hedge transactions, which are authorized by the appropriate committees. The effectiveness of hedges is assessed by the RMG. The effectiveness of all the hedge relationships is monitored by the RMG monthly. In situations of ineffectiveness, the Parent Company will enter into a new hedge relationship to mitigate risk on a continuous basis.

The Parent Company actively uses collateral to reduce its credit risks.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location.

The Parent Company manages concentration risks by setting exposure limits to borrowing groups, industries, and where appropriate, on products and facilities. These limits are reviewed as the need arises but at least annually.

In order to avoid excessive concentrations of risk, the Parent Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to perform its obligations during the life of the transaction. This includes risk of non-payment by borrowers or issuers, failed settlement of transactions and default on contracts.

The Parent Company drives credit risk management fundamentally via its Credit Policy Manual (CPM), the provisions of which are regularly reviewed and updated to reflect changing risk conditions. The CPM defines the principles and parameters governing credit activities, ensuring that each account's creditworthiness is thoroughly understood and regularly reviewed. Relationship Managers assume overall responsibility for the management of credit exposures while middle and back office functions are clearly defined to provide independent checks and balance to credit risk-taking activities. A system of approving and signing limits ensures adequate

senior management involvement for bigger and more complex transactions. Large exposures of the Group are kept under rigorous review as these are subjected to stress testing and scenario analysis to assess the impact of changes in market conditions or key risk factors (examples are economic cycles, interest rate, liquidity conditions or other market movements) on its profile and earnings.

The risk management structure of policies, accountabilities and responsibilities, controls and senior management involvement is similarly in place for nonperforming assets.

Derivative financial instruments
Credit risk in respect of derivative financial instruments is limited to those with positive fair values, which are included under ‘Financial assets at FVTPL’. As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts in the statements of financial position.

Credit-related commitments
The Parent Company makes available to its customers, guarantees which may require the Parent Company to make payments on their behalf and enter into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Parent Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Parent Company to similar risks to loans and these are mitigated by the same control processes and policies. This also includes the unutilized credit limit of the Group’s credit card customers.

Maximum exposure to credit risk after collaterals held or other credit enhancements
The tables below shows the maximum exposure to on-balance sheet credit risk exposures of the Group and Parent Company after taking into account any collaterals held or other credit enhancements (amounts in millions):

	Consolidated			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral**
December 31, 2014				
Credit risk exposure relating to on-balance sheet assets				
Receivable from customers - net (exclusive of SBEI):				
Corporate lending	**₱168,618**	**₱82,533**	**₱146,982**	**₱21,636**
Small business lending	**3,734**	**1,894**	**3,075**	**659**
Consumer lending	**3,877**	**4,101**	**2,622**	**1,255**
Residential mortgages	**8,181**	**6,148**	**3,822**	**4,359**
Others	**565**	**77**	**525**	**40**
Credit card receivables - individual	**1,720**	**1**	**1,719**	**1**
Receivable from customers - net (SBEI):				
Individual	**136**	**3,525**	**3**	**133**
Corporate	**696**	**2,640**	**545**	**151**
Other receivables	**6,477**	**1,061**	**5,960**	**517**
	₱194,004	**₱101,980**	**₱165,253**	**₱28,751**

	Consolidated			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral
December 31, 2013				
Credit risk exposure relating to on-balance sheet assets				
Receivable from customers - net (exclusive of SBEI):				
Corporate lending	₱149,919	₱67,170	₱127,786	₱22,133
Small business lending	3,441	2,022	2,463	978
Consumer lending	2,180	461	1,815	365
Residential mortgages	3,367	2,827	752	2,615
Credit card receivables - individual	1,566	29	1,537	29
Receivable from customers - net (SBEI):				
Individual	72	818	–	72
Corporate	201	1,350	–	201
Other receivables	4,496	962	4,066	430
	₱165,242	₱75,639	₱138,419	₱26,823

	Parent Company			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral
December 31, 2014				
Credit risk exposure relating to on-balance sheet assets				
Receivable from customers - net:				
Corporate lending	**₱168,667**	**₱82,503**	**₱147,048**	**₱21,619**
Consumer lending	**713**	**–**	**713**	**–**
Small business lending	**3,716**	**1,893**	**3,057**	**659**
Residential mortgages	**3,777**	**9**	**3,768**	**9**
Others	**564**	**77**	**525**	**39**
Credit card receivables - individual	**1,012**	**–**	**1,012**	**–**
Other receivables	**5,930**	**107**	**5,823**	**107**
	₱184,379	**₱84,589**	**₱161,946**	**₱22,433**
December 31, 2013				
Credit risk exposure relating to on-balance sheet assets				
Receivable from customers - net:				
Corporate lending	₱147,865	₱66,868	₱126,660	₱21,205
Small business lending	3,336	1,866	2,434	902
Credit card receivables - individual	827	29	798	29
Other receivables	3,962	113	3,849	113
	₱155,990	₱68,876	₱133,741	₱22,249

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2014 and 2013.

Credit card receivables and receivable from customers of SBEI are presented separately for the purpose of identifying receivables that are subjected to different credit risk rating systems.

Other receivables include unquoted debt instruments, accrued interest receivable, accounts receivable, sales contracts receivable and dividend receivable.

Risk concentrations of the maximum exposure to credit risk
The Group considers concentration risk to be present in its loans and receivables when the total exposure to a particular industry, sector or sub-sector, as internally defined, exceeds 15.00% of the total loan portfolio, which is more conservative than the BSP requirement of 30.00%.

The distribution of financial assets and off-balance sheet items by industry sector of the Group and Parent Company, before taking into account collateral held or other credit enhancements (maximum exposure) follows (amounts in millions):

	Consolidated				
	Loans and Receivables	Financial Investments*	Loans and Advances to Banks**	Others***	Total
December 31, 2014					
Wholesale and retail trade	**₱37,364**	**₱48**	**₱–**	**₱13,902**	**₱51,314**
Power, electricity and water distribution	**35,506**	**28**	**–**	**17,414**	**52,948**
Trading and manufacturing	**25,360**	**2,243**	**–**	**3,241**	**30,844**
Real estate	**27,891**	**3,222**	**–**	**7,802**	**38,915**
Financial intermediaries	**19,987**	**105,300**	**75,872**	**6,012**	**207,171**
Transportation, storage and communication	**10,236**	**1,232**	**–**	**6,111**	**17,579**
Others	**37,660**	**484**	**–**	**15,073**	**53,217**
	₱194,004	**₱112,557**	**₱75,872**	**₱69,555**	**₱451,988**
December 31, 2013					
Wholesale and retail trade	₱31,209	₱36	₱–	₱8,235	₱39,480
Power, electricity and water distribution	29,788	1,006	–	11,557	42,351
Trading and manufacturing	25,394	1,130	–	1,340	27,864
Real estate	20,658	2,762	–	3,704	27,124
Financial intermediaries	15,325	75,495	89,018	753	180,591
Transportation, storage and communication	14,539	1,305	–	267	16,111
Others	28,329	553	455	16,698	46,035
	₱165,242	₱82,287	₱89,473	₱42,554	₱379,556

	Parent Company				
	Loans and Receivables	Financial Investments*	Loans and Advances to Banks**	Others***	Total
December 31, 2014					
Wholesale and retail trade	**₱36,622**	**₱48**	**₱–**	**₱8,216**	**₱44,886**
Power, electricity and water distribution	**35,506**	**28**	**–**	**17,414**	**52,948**
Trading and manufacturing	**25,311**	**2,243**	**–**	**2,974**	**30,528**
Real estate	**23,172**	**3,222**	**–**	**7,802**	**34,196**
Financial intermediaries	**19,351**	**104,845**	**74,617**	**6,012**	**204,825**
Transportation, storage and communication	**10,234**	**1,232**	**–**	**6,111**	**17,577**
Others	**34,183**	**406**	**–**	**15,018**	**49,607**
	₱184,379	**₱112,024**	**₱74,617**	**₱63,547**	**₱434,567**
December 31, 2013					
Wholesale and retail trade	₱31,374	₱36	₱–	₱8,235	₱39,645
Power, electricity and water distribution	30,195	1,006	–	11,557	42,758
Trading and manufacturing	25,774	1,060	–	1,340	28,174
Real estate	17,811	2,762	–	3,704	24,277
Financial intermediaries	15,410	75,138	87,755	753	179,056
Transportation, storage and communication	14,744	1,305	–	267	16,316
Others	20,682	374	–	9,824	30,880
	₱155,990	₱81,681	₱87,755	₱35,680	₱361,106

* Consists of Financial assets at FVTPL and FVTOCI, and Investment securities at amortized cost
** Consists of Other cash items, Due from BSP, Due from other banks, Interbank loans receivables and SPURA and Cash collateral deposits (included in 'Other assets')
*** Consists of Contingent liabilities relating to inward and outward bills for collections, outstanding guarantees, letters of credit, unutilized credit limit of credit card holders, committed loan lines, security deposits and others

For details of the composition of the loans and receivables portfolio, refer to Note 12.

Offsetting of financial assets and financial liabilities
The Parent Company has various derivative financial instruments with various counterparties transacted under the International Swaps and Derivatives Association (ISDA) which are subject to enforceable master netting agreements. Under the agreements, the Parent Company has the right to settle its derivative financial instruments either: (1) upon election of the parties; or (2) in the case of default and insolvency or bankruptcy. The Parent Company, however, has no intention to net settle or to gross settle the accounts simultaneously. Also, the enforceability of netting upon default is contingent on a future event, and so the offsetting criteria under PAS 32 are not met. Consequently, the gross amount of the derivative asset and the gross amount of the derivative liability are presented separately in the Parent Company's statement of financial position.

Cash collaterals have also been received from and pledged to the counterparties for the net amount of exposures from the derivative financial instruments. These cash collaterals do not meet the offsetting criteria in under PAS 32 since it can only be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

The Parent Company has entered into sale and repurchase agreements with various counterparties that are accounted for as collateralized borrowing. The Parent Company has also entered into a reverse sale and repurchase agreements with various counterparties that are accounted for as a collateralized lending. These transactions are subject to a global master repurchase agreement with a right of set-off only against the collateral securities upon default and insolvency or bankruptcy and therefore do not meet the offsetting criteria under PAS 32. Consequently, the related SSURA is presented separately from the collateral securities in the Parent Company's statement of financial position.

The table below presents the recognized financial instruments of the Group and the Parent Company that are offset, or subject to enforceable master netting agreements or other similar arrangements but not offset, as at December 31, 2014 and 2013, taking into account the effects of over-collateralization.

	Gross amounts of recognized financial instruments	Gross amounts set-off in accordance with the PAS 32 offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Financial collateral	
	[a]	[b]	[c]=[a]-[b]	[d]		[e]=[c]-[d]
2014						
Financial Assets						
Derivative assets						
(Notes 6 and 9)	**₱755,710**	**₱–**	**₱755,710**	**(₱401,805)**	**₱–**	**₱353,905**
Financial Liabilities						
Derivative liabilities including designated as hedges						
(Notes 6 and 19)	**₱641,155**	**₱–**	**₱641,155**	**(₱401,805)**	**(₱77,892)**	**₱161,458**
SSURA (Note 20)	**41,723,917**	**–**	**41,723,917**	**–**	**(41,723,917)**	**–**
	₱42,365,072	**₱–**	**₱42,365,072**	**(₱401,805)**	**(₱41,801,809)**	**₱161,458**
2013						
Financial Assets						
Derivative assets						
(Notes 6 and 9)	₱1,251,310	₱–	₱1,251,310	(₱546,359)	(₱115)	₱704,836
SPURA	12,120,000	–	12,120,000	–	(12,120,000)	–
	₱13,371,310	₱–	₱13,371,310	(₱546,359)	(₱12,120,115)	₱704,836
Financial Liabilities						
Derivative liabilities including designated as hedges						
(Notes 6 and 19)	₱878,119	₱–	₱878,119	(₱546,359)	(₱136,390)	₱195,370
SSURA (Note 20)	48,059,930	–	48,059,930	–	(48,059,930)	–
	₱48,938,049	₱–	₱48,938,049	(₱546,359)	(₱48,196,320)	₱195,370

Collateral and other credit enhancements
The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - cash, guarantees, securities and physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred.
- For retail lending - mortgages on residential properties and financed vehicles.

Management monitors the market value of real property collateral on an annual basis and as needed for marketable securities to preserve collateral cover. The existing market value of collateral is considered during the review of the credit facilities and adequacy of the allowance for credit losses.

It is the Parent Company's policy to dispose assets acquired in an orderly fashion. The proceeds from the sale of the foreclosed assets (classified as 'Investment properties' in the statement of financial position) are used to reduce or repay the outstanding claim. In general, the Parent Company does not use repossessed properties for business.

Credit quality per class of financial assets
In compliance with BSP Circular No. 439, the Parent Company has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. Where appropriate, it obtains security, enters into master netting agreements, and limits the duration of exposures to maintain and even further enhance the quality of the Parent Company's credit exposures.

The credit quality of financial assets is monitored and managed using internal ratings and where available, external ratings.

The credit quality of trading and financial investment securities is generally monitored through the external ratings of eligible external credit rating institutions. Presented below is the mapping of the credit risk rating from external rating agencies to the Parent Company's internal risk rating for investment securities:

Agency	High Grade									
S&P	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Fitch	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
PhilRatings	AAA	Aa+	Aa	Aa-	A+	A	A-	Baa+	Baa	Baa-

Agency	Standard Grade						Substandard Grade
S&P	BB+	BB	BB-	B+	B	B-	Below B-
Moody's	Ba1	Ba2	Ba3	B1	B2	B3	Below B3
Fitch	BB+	BB	BB-	B+	B	B-	Below B-
PhilRatings	Ba+	Ba	Ba-	B+	B	B-	Below B-

For loan exposures, the credit quality is generally monitored using its internal ratings system. It is the Parent Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely, the borrower's risk rating and the facility risk rating. It is supported by a

variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit or counterparty risk. All internal risk ratings are tailored with various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

The Group uses Internal Credit Risk Ratings (ICRR) to classify the credit quality of its receivables portfolio. This is currently undergoing upgrade to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

The description of the loan grades used by the Group for receivable from customers, except credit card receivables and receivables of SBEI, are as follows:

A. Large Corporate Scorecard/Camelot Rating
High Grade (ICRR 1 to ICRR 5)
Accounts belonging to this category have a low probability of defaulting on their obligations within the coming year. A comfortable degree of stability and diversity can be found in these borrowers. Borrowers with this rating have access to the capital markets and have a history of successful financial performance.

Standard Grade (ICRR 6 to ICRR 10)
Accounts whose financial ratios exhibit an amount of buffer though somewhat limited. These accounts can withstand minor economic weaknesses but may suffer if conditions deteriorate in a significant way and therefore, default risk is present under such adverse conditions. Repayment ability is more or less assured if economic and industry conditions remain stable.

Substandard Grade (ICRR 11 to ICRR 14)
Accounts for which default risk are very much present are included in this category. The financial ratios of the accounts are virtually at the inflection point separating the current loans and potential problem loans. Any deterioration on the economic or industry front will push the accounts into NPL category in the future.

Unrated
This category includes accounts not required to be rated under BSP regulation, equity securities, accounts receivables and sales contract receivables. The Group is currently building a separate credit rating system for its consumer loans portfolio to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

B. Middle Market Scorecard
High Grade (ICRR 1 to ICRR 3)
Accounts belonging to this category have a low probability of defaulting on their obligations within the coming year. A comfortable degree of stability and diversity can be found in these borrowers. Borrowers with this rating have access to the capital markets and have a history of successful financial performance.

Standard Grade (ICRR 4 to ICRR 6)
Accounts whose financial ratios exhibit an amount of buffer although somewhat limited. These accounts can withstand minor economic weaknesses but may suffer if conditions deteriorate in a significant way and therefore, default risk is present under such adverse conditions. Repayment ability is more or less assured if economic and industry conditions remain stable.

Substandard Grade (ICRR 7 to ICRR 10)
Accounts for which default risk are very much present are included in this category. The financial ratios of the accounts are virtually at the inflection point separating the current loans and potential problem loans. Any deterioration on the economic or industry front will push the accounts into NPL category in the future.

Unrated
This category includes accounts not required to be rated under BSP regulation, equity securities, consumer loans, accounts receivables and sales contract receivables. The Group is currently building a separate credit rating system for its consumer loans portfolio to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

For credit card receivables, the Parent Company and SBCC classify accounts that are neither past due nor impaired as follows:

- *High Grade* - Accounts with tenure of 24 months or more which are under the current classification and have never reached 30 days past due for the last 12 months from year-end.
- *Standard Grade* - Accounts with tenure of 12 months or more which are under the current classification and have never reached 30 days past due for the last 12 months from year-end.
- *Substandard Grade* - Accounts with tenure of less than 12 months which are under the current classification and have never reached 30 days past due for the last 12 months from year-end.
- *Unrated* - Current but non-active accounts and accounts that have reached 30 days past due for the last 12 months from year-end.

For SBEI's receivable portfolio, the Group classifies accounts that are neither past due nor impaired as follows:

- *High Grade* - receivables from counterparties with no history of default and with apparent ability to settle the obligation. In case of receivables from customers, the outstanding amount must be more than 200.00% secured by collateral.
- *Standard Grade* - receivable from counterparties with no history of default, with apparent ability to settle the obligation and the outstanding amount must be 100.00% - 200.00% secured by collateral.
- *Substandard Grade* - receivable from counterparties with history of default and partially secured or unsecured accounts.
- *Unrated* - Receivables from employees and refundable deposits.

Financial assets of the Group and Parent Company, for which no available external ratings are available, are classified as unrated.

The tables below show the credit quality by class of financial assets (gross of allowance for credit losses and net of unearned discounts and deferred credits) of the Group and Parent Company:

	Consolidated						
	Neither Past Due nor Individually Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due but not Individually Impaired	Individually Impaired	Total
December 31, 2014							
Financial assets at FVTPL:							
HFT investments:							
Government securities	**₱8,814,603**	**₱605,907**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,420,510**
Equity securities	**153,861**	–	–	**495,247**	–	–	**649,108**
Private bonds	–	**48,382**	–	**32,995**	–	–	**81,377**
Total HFT investments	**8,968,464**	**654,289**	–	**528,242**	–	–	**10,150,995**

(Forward)

	Consolidated						
	Neither Past Due nor Individually Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due but not Individually Impaired	Individually Impaired	Total
Derivative assets:							
Interest rate swaps	₱425,632	₱17,667	₱–	₱–	₱–	₱–	₱443,299
Currency forwards	105,421	30,983	–	171,632	–	–	308,036
Options	4,329	–	–	–	–	–	4,329
Cross-currency swaps	46	–	–	–	–	–	46
Total derivative assets	535,428	48,650	–	171,632	–	–	755,710
Others	–	–	–	15,117	–	–	15,117
Total financial assets at FVTPL	9,503,892	702,939	–	714,991	–	–	10,921,822
Financial assets at amortized cost:							
Due from other banks	38,798,419	–	–	331,176	–	–	39,129,595
Due from BSP	35,843,596	–	–	–	–	–	35,843,596
Investment securities at amortized cost:							
Treasury notes and bills	29,395,421	–	–	–	–	–	29,395,421
Treasury bonds	12,574,897	47,982,486	–	–	–	–	60,557,383
Private bonds	350,685	1,944,357	1,231,309	8,005,688	–	–	11,532,039
Total investment securities at amortized cost	42,321,003	49,926,843	1,231,309	8,005,688	–	–	101,484,843
Receivable from customers:							
Corporate lending	6,557,625	73,975,699	25,666,976	7,505,560	180,742	57,723,708	171,610,310
Credit card receivables - individual	554,849	16,963	39,840	1,071,174	61,513	–	1,744,339
Residential mortgages	–	5,402,277	108,159	2,612,833	70,912	419	8,194,600
Small business lending	–	693,977	321,053	2,668,326	20,370	62,458	3,766,184
Consumer lending	–	2,629,595	6,766	685,327	588,951	51,130	3,961,769
Others	–	–	15,000	550,603	–	–	565,603
Receivable from customers (SBEI):							
Corporate	110,187	329,190	253,695	–	–	4,986	698,058
Individual	20,517	11,173	10,779	–	–	94,200	136,669
Total receivable from customers (SBEI)	130,704	340,363	264,474	–	–	99,186	834,727
Total receivable from customers	7,243,178	83,058,874	26,422,268	15,093,823	922,488	57,936,901	190,677,532
Other receivables	1,234,171	1,788,594	102,859	2,699,143	61,857	619,517	6,506,141
Other assets	366,698	–	–	746,285	–	–	1,112,983
Total financial assets at amortized cost	125,807,065	134,774,311	27,756,436	26,876,115	984,345	58,556,418	374,754,690
Financial assets at FVTOCI	–	–	–	150,780	–	–	150,780
Total	₱135,310,957	₱135,477,250	₱27,756,436	₱27,741,886	₱984,345	₱58,556,418	₱385,827,292
December 31, 2013							
Financial assets at FVTPL:							
HFT investments:							
Government securities	₱479,346	₱145,327	₱–	₱–	₱–	₱–	₱624,673
Equity securities	395,523	340,806	18,427	36,451	–	–	791,207
Private bonds	30,163	914,911	–	929	–	–	946,003
Total HFT investments	905,032	1,401,044	18,427	37,380	–	–	2,361,883
Derivative assets:							
Interest rate swaps	650,590	55,041	–	–	–	–	705,631
Currency forwards	356,097	72,721	204	–	–	–	429,022
Warrants	–	116,657	–	–	–	–	116,657
Total derivative assets	1,006,687	244,419	204	–	–	–	1,251,310
Others	–	–	–	15,117	–	–	15,117
Total financial assets at FVTPL	1,911,719	1,645,463	18,631	52,497	–	–	3,628,310
Financial assets at amortized cost:							
Due from BSP	45,583,991	–	–	–	–	–	45,583,991
Due from other banks	27,568,347	1,171,034	–	–	–	–	28,739,381
SPURA	12,120,000	–	–	–	–	–	12,120,000
Investment securities at amortized cost:							
Private bonds	8,825,121	–	1,001,734	–	–	–	9,826,855
Treasury notes and bills	6,294,859	–	–	–	–	–	6,294,859
Treasury bonds	6,273,068	56,119,659	–	–	–	–	62,392,727
Total investment securities at amortized cost	21,393,048	56,119,659	1,001,734	–	–	–	78,514,441
Receivable from customers:							
Corporate lending	12,159,813	62,283,124	32,167,120	16,247,622	211,425	27,534,604	150,603,708
Credit card receivables - individual	693,109	16,812	13,005	2,568	24,647	–	750,141
Residential mortgages	–	3,375,799	–	–	1,367	26,880	3,404,046
Small business lending	–	140,246	17,950	2,788,713	6,250	438,496	3,391,655
Consumer lending	–	2,234,672	–	283	117,092	454,772	2,806,819
Receivable from customers (SBEI):							
Corporate	20,597	171,936	8,039	–	11,017	–	211,589
Individual	22,468	49,686	198	–	–	–	72,352
Total receivable from customers (SBEI)	43,065	221,622	8,237	–	11,017	–	283,941
Total receivable from customers	12,895,987	68,272,275	32,206,312	19,039,186	371,798	28,454,752	161,240,310
Other receivables	1,021,972	3,959,089	264,701	945,888	62,117	276,053	6,529,820
Other assets	297,695	560,873	–	64,601	–	–	923,169
Total financial assets at amortized cost	120,881,040	130,082,930	33,472,747	20,049,675	433,915	28,730,805	333,651,112
Financial assets at FVTOCI	53,489	–	–	90,643	–	–	144,132
Total	₱122,846,248	₱131,728,393	₱33,491,378	₱20,192,815	₱433,915	₱28,730,805	₱337,423,554

	Parent Company						
	Neither Past Due nor Individually Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due but not Individually Impaired	Individually Impaired	Total
December 31, 2014							
Financial assets at FVTPL:							
HFT investments:							
Government securities	**₱8,814,603**	**₱605,907**	**₱–**	**₱–**	**₱–**	**₱–**	**9,420,510**
Private bonds	**153,861**	**–**	**–**	**493,048**	**–**	**–**	**646,909**
Equity securities	**–**	**48,382**	**–**	**32,995**	**–**	**–**	**81,377**
Total HFT investments	**8,968,464**	**654,289**	**–**	**526,043**	**–**	**–**	**10,148,796**
Derivative assets:							
Interest rate swaps	**425,632**	**17,667**	**–**	**–**	**–**	**–**	**443,299**
Currency forwards	**105,421**	**30,983**	**–**	**171,632**	**–**	**–**	**308,036**
Options	**4,329**	**–**	**–**	**–**	**–**	**–**	**4,329**
Cross-currency swaps	**46**	**–**	**–**	**–**	**–**	**–**	**46**
Total derivative assets	**535,428**	**48,650**	**–**	**171,632**	**–**	**–**	**755,710**
Others	**–**	**–**	**–**	**15,094**	**–**	**–**	**15,094**
Total financial assets at FVTPL	**9,503,892**	**702,939**	**–**	**712,769**	**–**	**–**	**10,919,600**
Financial assets at amortized cost:							
Due from BSP	**34,671,149**	**–**	**–**	**–**	**–**	**–**	**34,671,149**
Due from other banks	**38,715,866**	**–**	**–**	**331,176**	**–**	**–**	**39,047,042**
Investment securities at amortized cost:							
Private bonds	**–**	**1,944,357**	**1,231,309**	**8,005,688**	**–**	**–**	**11,181,354**
Treasury notes and bills	**29,394,407**	**–**	**–**	**–**	**–**	**–**	**29,394,407**
Treasury bonds	**12,474,897**	**47,982,486**	**–**	**–**	**–**	**–**	**60,457,383**
Total investment securities at amortized cost	**41,869,304**	**49,926,843**	**1,231,309**	**8,005,688**	**–**	**–**	**101,033,144**
Receivable from customers:							
Corporate lending	**6,535,757**	**73,971,018**	**25,663,337**	**7,573,376**	**180,542**	**57,723,708**	**171,647,738**
Credit card receivables - individual	**–**	**–**	**–**	**993,664**	**35,997**	**–**	**1,029,661**
Residential mortgages	**–**	**1,032,279**	**108,159**	**2,612,833**	**36,297**	**419**	**3,789,987**
Small business lending	**–**	**676,283**	**321,053**	**2,668,326**	**20,370**	**62,458**	**3,748,490**
Consumer lending	**–**	**25,262**	**6,766**	**685,109**	**356**	**3,886**	**721,379**
Others	**–**	**–**	**15,000**	**550,603**	**–**	**–**	**565,603**
Total receivable from customers	**6,535,757**	**75,704,842**	**26,114,315**	**15,083,911**	**273,562**	**57,790,471**	**181,502,858**
Other receivables	**1,233,769**	**1,376,456**	**102,859**	**2,625,813**	**31,921**	**579,450**	**5,950,268**
Other assets	**366,698**	**–**	**–**	**707,990**	**–**	**–**	**1,074,688**
Total financial assets at amortized cost	**123,392,543**	**127,008,141**	**27,448,483**	**26,754,578**	**305,483**	**58,369,921**	**363,279,149**
Financial assets at FVTOCI	**–**	**–**	**–**	**70,770**	**–**	**–**	**70,770**
Total	**₱132,896,435**	**₱127,711,080**	**₱27,448,483**	**₱27,538,117**	**₱305,483**	**₱58,369,921**	**₱374,269,519**
December 31, 2013							
Financial assets at FVTPL:							
HFT investments:							
Government securities	₱479,346	₱145,327	₱–	₱–	₱–	₱–	₱624,673
Equity securities	395,523	270,898	18,427	35,848	–	–	720,696
Private bonds	30,163	914,911	–	929	–	–	946,003
Total HFT investments	905,032	1,331,136	18,427	36,777	–	–	2,291,372
Derivative assets:							
Interest rate swaps	650,590	55,041	–	–	–	–	705,631
Currency forwards	356,097	72,721	204	–	–	–	429,022
Warrants	–	116,657	–	–	–	–	116,657
Total derivative assets	1,006,687	244,419	204	–	–	–	1,251,310
Others	–	–	–	15,094	–	–	15,094
Total financial assets at FVTPL	1,911,719	1,575,555	18,631	51,871	–	–	3,557,776
Financial assets at amortized cost:							
Due from BSP	45,129,263	–	–	–	–	–	45,129,263
Due from other banks	27,506,482	1,171,034	–	–	–	–	28,677,516
Interbank loans receivable and SPURA with the BSP							
Interbank loans receivable	970,000	–	–	–	–	–	970,000
SPURA	12,120,000	–	–	–	–	–	12,120,000
	13,090,000	–	–	–	–	–	13,090,000
Investment securities at amortized cost:							
Private bonds	8,471,089	–	1,001,733	–	–	–	9,472,822
Treasury notes and bills	6,293,807	–	–	–	–	–	6,293,807
Treasury bonds	6,173,068	56,119,659	–	–	–	–	62,292,727
Total investment securities at amortized cost	20,937,964	56,119,659	1,001,733	–	–	–	78,059,356
Receivable from customers:							
Corporate lending	12,159,813	60,750,751	32,167,120	16,397,312	200,959	27,534,071	149,210,026
Small business lending	–	140,246	17,950	2,788,713	6,250	438,496	3,391,655
Credit card receivables - individual	–	–	–	812,895	28,703	–	841,598
Total receivable from customers	12,159,813	60,890,997	32,185,070	19,998,920	235,912	27,972,567	153,443,279
Other receivables	606,700	3,605,297	264,701	421,947	7,648	230,232	5,136,525
Other assets	297,695	560,873	–	–	–	–	858,568
Total financial assets at amortized cost	119,727,917	122,347,860	33,451,504	20,420,867	243,560	28,202,799	324,394,507
Financial assets at FVTOCI	–	–	–	64,260	–	–	64,260
Total	₱121,639,636	₱123,923,415	₱33,470,135	₱20,536,998	₱243,560	₱28,202,799	₱328,016,543

As of December 31, 2014 and 2013, allowance on individually impaired receivables of the Group amounted to ₱2.9 billion and ₱2.1 billion, respectively, and ₱2.9 billion and ₱2.0 billion, respectively, for the Parent Company (see Note 12).

The following table provides the analysis of the Group and the Parent Company's restructured receivables by class (included in the preceding table for the credit quality by class of financial assets) as of December 31, 2014 and 2013:

	Consolidated			
	Neither Past Due Nor Individually Impaired	**Past Due But Not Individually Impaired**	**Individually Impaired**	**Total**
December 31, 2014				
Corporate lending	**₱75,982**	**₱–**	**₱134,395**	**₱210,377**
Consumer lending	**45,605**	**17,758**	**10,613**	**73,976**
Small business lending	**3,323**	**–**	**2,163**	**5,486**
Total	**₱124,910**	**₱17,758**	**₱147,171**	**₱289,839**
December 31, 2013				
Corporate lending	₱111,035	₱13,826	₱33,753	₱158,614
Consumer lending	8,085	3,156	17,198	28,439
Small business lending	22,923	–	4,430	27,353
Total	₱142,043	₱16,982	₱55,381	₱214,406

	Parent Company			
	Neither Past Due Nor Individually Impaired	**Past Due But Not Individually Impaired**	**Individually Impaired**	**Total**
December 31, 2014				
Corporate lending	**₱75,982**	**₱–**	**₱134,395**	**₱210,377**
Consumer lending	**20,530**	**4,360**	**–**	**24,890**
Small business lending	**3,323**	**–**	**2,163**	**5,486**
Residential mortgages	**715**	**–**	**–**	**715**
Total	**₱100,550**	**₱4,360**	**₱136,558**	**₱241,468**
December 31, 2013				
Corporate lending	₱89,114	₱–	₱16,668	₱105,782
Small business lending	22,923	–	4,430	27,353
Total	₱112,037	₱–	₱21,098	₱133,135

Aging analysis of past due but not impaired financial assets per class

The table below shows the aging analysis of past due but not impaired loans receivables per class of the Group and the Parent Company. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

	Consolidated				
	Within 30 days	**31 to 60 Days**	**61 to 90 days**	**Over 90 days**	**Total**
December 31, 2014					
Small business lending	**₱–**	**₱4,500**	**₱–**	**₱15,870**	**₱20,370**
Consumer lending	**10,430**	**38,825**	**16,417**	**584,791**	**650,463**
Corporate lending	**4,292**	**107**	**21**	**176,322**	**180,742**
Residential mortgages	**–**	**1,855**	**34,615**	**34,442**	**70,912**
Others	**11,983**	**1,617**	**1,750**	**46,508**	**61,858**
Total	**₱26,705**	**₱46,904**	**₱52,803**	**₱857,933**	**₱984,345**
December 31, 2013					
Small business lending	₱9,440	₱7,407	₱5,061	₱7,891	₱29,799
Consumer lending	13,159	13,202	37,308	217,173	280,842
Corporate lending	9,221	185	60	1,534	11,000
Others	25,736	17,841	12,582	56,115	112,274
Total	₱57,556	₱38,635	₱55,011	₱282,713	₱433,915

	Parent Company				
	Within 30 days	31 to 60 Days	61 to 90 days	Over 90 days	Total
December 31, 2014					
Small business lending	**₱–**	**₱4,500**	**₱–**	**₱15,870**	**₱20,370**
Consumer lending	**–**	**363**	**–**	**35,989**	**36,352**
Corporate lending	**4,292**	**–**	**–**	**176,250**	**180,542**
Residential mortgages	**–**	**1,855**	**–**	**34,442**	**36,297**
Others	**866**	**–**	**–**	**31,056**	**31,922**
Total	**₱5,158**	**₱6,718**	**₱–**	**₱293,607**	**₱305,483**
December 31, 2013					
Small business lending	₱6,250	₱–	₱–	₱–	₱6,250
Consumer lending	9,969	8,516	–	182,475	200,960
Others	6,687	8,369	5,463	15,831	36,350
Total	₱22,906	₱16,885	₱5,463	₱198,306	₱243,560

Impairment assessment
The Group and the Parent Company recognize impairment losses based on the results of its individual and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, a significant credit rating downgrade, infringement of the original terms of the contract has happened, or when there is inability to pay principal or interest overdue beyond a certain threshold. These and other factors, either singly or together with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

Liquidity Risk
Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. Liquidity risk is monitored and managed using Maximum Cumulative Outflows (MCO) limits. A Contingency Funding Plan is likewise in place to ensure readiness for identified liquidity crisis situation.

The Parent Company's Asset and Liability Committee (ALCO) is directly responsible for market and liquidity risk exposures. ALCO regularly monitors the Parent Company's positions and sets the appropriate transfer pricing rate to effectively manage movements of funds across business activities.

Analysis of financial instruments by remaining contractual maturities
The table below shows the maturity profile of the Group's and Parent Company's financial instruments, based on the Group's and Parent Company's internal methodology that manages liquidity based on remaining contractual undiscounted cash flows.

Financial assets
Maturity profile of financial assets held for liquidity purposes is shown below. Analysis of equity and debt securities at FVTPL into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date, except for savings deposits which are based on expected withdrawals. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

	Consolidated						
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
December 31, 2014							
Financial Assets							
Financial assets at FVTPL:							
HFT investments:							
Government securities	₱–	₱9,838,634	₱–	₱–	₱–	₱–	₱9,838,634
Private bonds	–	84,989	–	–	–	–	84,989
Equity securities	–	646,909	–	–	–	–	646,909
Total HFT investments	–	10,570,532	–	–	–	–	10,570,532
Others	–	–	–	–	–	17,316	17,316
Total financial assets at FVTPL	–	10,570,532	–	–	–	17,316	10,587,848
Financial assets at amortized cost:							
COCI and due from BSP	41,463,347	–	–	–	–	–	41,463,347
Due from other banks	39,129,595	–	–	–	–	–	39,129,595
Investment securities at amortized cost	–	1,223,768	1,023,236	1,287,382	3,868,745	169,519,923	176,923,054
Receivable from customers and other receivables	37,134	58,827,584	27,635,026	14,183,755	16,456,697	121,392,211	238,532,407
Total financial assets at amortized cost	80,630,076	60,051,352	28,658,262	15,471,137	20,325,442	290,912,134	496,048,403
Financial assets at FVTOCI	–	–	–	–	–	150,780	150,780
Total financial assets	₱80,630,076	₱70,621,884	₱28,658,262	₱15,471,137	₱20,325,442	₱291,080,230	₱506,787,031
Financial Liabilities							
Deposit liabilities:							
Demand	₱63,949,342	₱–	₱–	₱–	₱–	₱–	₱63,949,342
Savings	69,726,770	34,066,006	6,776,625	5,335,886	814,281	25,832	116,745,400
Time	–	29,945,464	11,537,542	10,278,458	2,741,787	4,474,449	58,977,700
LTNCD	–	–	140,556	138,264	278,819	11,955,556	12,513,195
Total deposit liabilities	133,676,112	64,011,470	18,454,723	15,752,608	3,834,887	16,455,837	252,185,637
Derivative liabilities designated as hedges	–	6,681	7,607	13,121	24,523	58,916	110,848
Bills payable and SSURA	45,627,118	23,189,454	5,722,678	233,297	449,336	4,990,460	80,212,343
Acceptances payable	–	–	–	–	–	294,373	294,373
Margin deposits and cash letters of credit	–	–	–	–	–	32,972	32,972
Manager's and certified checks outstanding	47,663	2,109,174	–	–	–	–	2,156,837
Accrued interest, expense and other liabilities	19,103	7,415,687	15,326	1,854	147	358,428	7,810,545
Total financial liabilities	₱179,369,996	₱96,732,466	₱24,200,334	₱16,000,880	₱4,308,893	₱22,190,986	₱342,803,555
December 31, 2013							
Financial Assets							
Financial assets at FVTPL:							
HFT investments:							
Government securities	₱–	₱634,009	₱–	₱–	₱–	₱–	₱634,009
Private bonds	–	946,156	–	–	–	–	946,156
Equity securities	–	791,157	–	–	–	23	791,180
Total HFT investments	–	2,371,322	–	–	–	23	2,371,345
Others	–	–	–	–	–	15,094	15,094
Total financial assets at FVTPL	–	2,371,322	–	–	–	15,117	2,386,439
Financial assets at amortized cost:							
COCI and due from BSP	50,467,496	1,033,274	–	–	–	–	51,500,770
Due from other banks	29,153,488	–	–	–	–	–	29,153,488
SPURA with the BSP	–	12,120,000	–	–	–	–	12,120,000
Investment securities at amortized cost	–	288,332	523,775	301,029	1,137,552	85,466,804	87,717,492
Receivable from customers and other receivables	56,646	42,816,318	11,109,991	28,025,508	13,928,737	94,602,548	190,539,748
Total financial assets at amortized cost	79,677,630	56,257,924	11,633,766	28,326,537	15,066,289	180,069,352	371,031,498
Financial assets at FVTOCI	–	–	–	–	–	144,132	144,132
Total financial assets	₱79,677,630	₱58,629,246	₱11,633,766	₱28,326,537	₱15,066,289	₱180,228,601	₱373,562,069
Financial Liabilities							
Deposit liabilities:							
Demand	₱51,938,623	₱–	₱–	₱–	₱–	₱–	₱51,938,623
Savings	6,000,279	32,069,118	4,873,204	8,407,327	2,141,744	56,348,079	109,839,751
Time	–	8,856,331	2,594,272	3,519,733	967,427	21,656,545	37,594,308
LTNCD	–	–	140,556	138,264	278,819	12,513,194	13,070,833
Total deposit liabilities	57,938,902	40,925,449	7,608,032	12,065,324	3,387,990	90,517,818	212,443,515

(Forward)

	Consolidated						
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
Derivative liabilities designated as hedges	₱–	₱7,809	₱10,096	₱16,658	₱25,437	₱61,961	₱121,961
Bills payable and SSURA	47,969	46,512,365	19,009,472	21,121,823	16,677	4,724,969	91,433,275
Acceptances payable	199,192	193,266	130,153	56,604	–	–	579,215
Margin deposits and cash letters of credit	3,223	1,732	946	–	–	–	5,901
Manager's and certified checks outstanding	137,461	1,794,652	–	–	–	–	1,932,113
Accrued interest, expense and other liabilities	213,641	5,528,678	193	840	–	442,859	6,186,211
Total financial liabilities	₱58,540,388	₱94,963,951	₱26,758,892	₱33,261,249	₱3,430,104	₱95,747,607	₱312,702,191

	Parent Company						
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days*	Total
December 31, 2014							
Financial Assets							
Financial assets at FVTPL:							
HFT investments:							
Government securities	**₱–**	**₱9,838,634**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,838,634**
Private bonds	**–**	**84,989**	**–**	**–**	**–**	**–**	**84,989**
Equity securities	**–**	**646,909**	**–**	**–**	**–**	**–**	**646,909**
Total HFT investments	**–**	**10,570,532**	**–**	**–**	**–**	**–**	**10,570,532**
Others	**–**	**–**	**–**	**–**	**–**	**15,093**	**15,093**
Total financial assets at FVTPL	**–**	**10,570,532**	**–**	**–**	**–**	**15,093**	**10,585,625**
Financial assets at amortized cost:							
COCI and due from BSP	**39,978,157**	**–**	**–**	**–**	**–**	**–**	**39,978,157**
Due from other banks	**39,047,042**	**–**	**–**	**–**	**–**	**–**	**39,047,042**
Interbank loans receivable and SPURA with the BSP	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Investment securities at amortized cost	**–**	**1,223,768**	**1,023,236**	**1,286,335**	**3,514,561**	**169,412,873**	**176,460,773**
Receivable from customers and other receivables		**57,509,079**	**27,495,901**	**13,447,642**	**14,197,311**	**112,114,659**	**224,764,592**
Total financial assets at amortized cost	**79,025,199**	**58,732,847**	**28,519,137**	**14,733,977**	**17,711,872**	**281,527,532**	**480,250,564**
Financial assets at FVTOCI	**–**	**–**	**–**	**–**	**–**	**70,770**	**70,770**
Total financial assets	**₱79,025,199**	**₱69,303,379**	**₱28,519,137**	**₱14,733,977**	**₱17,711,872**	**₱281,613,395**	**₱490,906,959**
Financial Liabilities							
Deposit liabilities:							
Demand	**₱62,031,928**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱62,031,928**
Savings	**68,404,180**	**34,066,006**	**6,776,625**	**5,335,886**	**814,281**	**25,832**	**115,422,810**
Time	**–**	**29,516,361**	**10,642,633**	**9,786,257**	**1,923,125**	**355,031**	**52,223,407**
LTNCD	**–**	**–**	**140,556**	**138,264**	**278,819**	**11,955,556**	**12,513,195**
Total deposit liabilities	**130,436,108**	**63,582,367**	**17,559,814**	**15,260,407**	**3,016,225**	**12,336,419**	**242,191,340**
Derivative liabilities designated as hedges	**–**	**6,681**	**7,607**	**13,121**	**24,523**	**58,916**	**110,848**
Bills payable and SSURA	**45,627,118**	**23,071,454**	**5,722,678**	**233,297**	**449,336**	**4,990,460**	**80,094,343**
Acceptances payable	**–**	**–**	**–**	**–**	**–**	**294,373**	**294,373**
Margin deposits and cash letters of credit	**–**	**–**	**–**	**–**	**–**	**32,972**	**32,972**
Manager's and certified checks outstanding	**–**	**2,109,174**	**–**	**–**	**–**	**–**	**2,109,174**
Accrued interest, expense and other liabilities	**–**	**7,078,288**	**–**	**–**	**–**	**300,392**	**7,378,680**
Total financial liabilities	**₱176,063,226**	**₱95,847,964**	**₱23,290,099**	**₱15,506,825**	**₱3,490,084**	**₱18,013,532**	**₱332,211,730**
December 31, 2013							
Financial Assets							
Financial assets at FVTPL:							
HFT investments:							
Government securities	₱–	₱634,009	₱–	₱–	₱–	₱–	₱634,009
Private bonds	–	946,156	–	–	–	–	946,156
Equity securities	–	720,696	–	–	–	–	720,696
Total HFT investments	–	2,300,861	–	–	–	–	2,300,861
Others	–	–	–	–	–	15,094	15,094
Total financial assets at FVTPL	–	2,300,861	–	–	–	15,094	2,315,955
Financial assets at amortized cost:							
COCI and due from BSP	49,325,784	–	–	–	–	–	49,325,784
Due from other banks	28,677,516	–	–	–	–	–	28,677,516
Interbank loans receivable and SPURA with the BSP	–	13,113,612	–	–	–	–	13,113,612
Investment securities at amortized cost	–	288,332	523,775	301,029	1,137,552	85,466,804	87,717,492
Receivable from customers and other receivables	–	41,423,845	10,912,014	27,487,394	13,538,541	87,242,219	180,604,013
Total financial assets at amortized cost	78,003,300	54,825,789	11,435,789	27,788,423	14,676,093	172,709,023	359,438,417
Financial assets at FVTOCI	–	–	–	–	–	64,260	64,260
Total financial assets	₱78,003,300	₱57,126,650	₱11,435,789	₱27,788,423	₱14,676,093	₱172,788,377	₱361,818,632

	Parent Company						
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days*	Total
Financial Liabilities							
Deposit liabilities:							
Demand	₱51,437,053	₱–	₱–	₱–	₱–	₱–	₱51,437,053
Savings	5,844,881	31,835,971	4,873,204	8,407,327	2,141,744	55,636,982	108,740,109
Time	–	7,932,721	2,077,293	3,423,545	841,420	17,898,117	32,173,096
LTNCD	–	–	140,556	138,264	278,819	12,513,194	13,070,833
Total deposit liabilities	57,281,934	39,768,692	7,091,053	11,969,136	3,261,983	86,048,293	205,421,091
Derivative liabilities designated as hedges	–	7,809	10,096	16,658	25,437	61,961	121,961
Bills payable and SSURA	47,969	45,541,923	19,009,472	21,121,823	16,677	4,724,969	90,462,833
Acceptances payable	199,192	193,266	130,153	56,604	–	–	579,215
Margin deposits and cash letters of credit	3,223	1,732	946	–	–	–	5,901
Manager's and certified checks outstanding	–	1,794,652	–	–	–	–	1,794,652
Accrued interest, expense and other liabilities	–	4,616,724	–	–	–	442,512	5,059,236
Total financial liabilities	₱57,532,318	₱91,924,798	₱26,241,720	₱33,164,221	₱3,304,097	₱91,277,735	₱303,444,889

**For items within the "Over 360 Days" bucket, further analysis is made based on time buckets.*

The table below shows the contractual expiry by maturity of the Group's and the Parent Company's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Consolidated						
	On Demand	**Within 30 Days**	**31 to 60 Days**	**61 to 180 Days**	**181 to 360 Days**	**Over 360 Days**	**Total**
December 31, 2014							
Unutilized credit limit of credit card holders	**₱10,450,280**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱10,450,280**
Unused commercial letters of credit	**4,450,029**	**2,427,950**	**2,427,074**	**5,271,682**	**4,618,743**	**1,148,877**	**20,344,355**
Inward bills for collection	**404,414**	**617,603**	**389,417**	**13,498**	**–**	**–**	**1,424,932**
Committed loan line	**2,272,444**	**–**	**690,000**	**10,680,000**	**16,341,687**	**112,500**	**30,096,631**
Outward bills for collection	**14,913**	**6,620**	**167,047**	**–**	**–**	**–**	**188,580**
Outstanding guarantees	**1,363,895**	**–**	**–**	**–**	**–**	**5,398,698**	**6,762,593**
Others	**42,168**	**730**	**930**	**10,746**	**10,070**	**–**	**64,644**
	₱18,998,143	**₱3,052,903**	**₱3,674,468**	**₱15,975,926**	**₱20,970,500**	**₱6,660,075**	**₱69,332,015**
December 31, 2013							
Unutilized credit limit of credit card holders	₱12,009,161	₱–	₱–	₱–	₱–	₱–	₱12,009,161
Unused commercial letters of credit	797,648	1,753,632	2,493,632	5,209,658	5,835,168	7,520,056	23,609,794
Inward bills for collection	174,809	210,565	57,252	19,757	–	–	462,383
Committed loan line	58,000	–	–	186,200	2,769,222	1,661,000	4,674,422
Outward bills for collection	49,189	19,547	158,123	51,423	–	–	278,282
Outstanding guarantees	564,270	–	–	–	–	–	564,270
Others	711,062	27,692	75,353	100,243	39,537	–	953,887
	₱14,364,139	₱2,011,436	₱2,784,360	₱5,567,281	₱8,643,927	₱9,181,056	₱42,552,199

	Parent Company						
	On Demand	**Within 30 Days**	**31 to 60 Days**	**61 to 180 Days**	**181 to 360 Days**	**Over 360 Days**	**Total**
December 31, 2014							
Unutilized credit limit of credit card holders	**₱4,497,405**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,497,405**
Unused commercial letters of credit	**4,450,029**	**2,427,950**	**2,427,074**	**5,271,682**	**4,618,743**	**1,148,877**	**20,344,355**
Inward bills for collection	**404,414**	**617,603**	**389,417**	**13,498**	**–**	**–**	**1,424,932**
Committed loan line	**2,272,444**	**–**	**690,000**	**10,680,000**	**16,341,687**	**112,500**	**30,096,631**
Outward bills for collection	**14,913**	**5,620**	**160,200**	**–**	**–**	**–**	**180,733**
Outstanding guarantees	**1,363,895**	**–**	**–**	**–**	**–**	**5,398,698**	**6,762,593**
Others	**42,168**	**730**	**930**	**10,746**	**10,070**	**–**	**64,644**
	₱13,045,268	**₱3,051,903**	**₱3,667,621**	**₱15,975,926**	**₱20,970,500**	**₱6,660,075**	**₱63,371,293**
December 31, 2013							
Unutilized credit limit of credit card holders	₱5,150,130	₱–	₱–	₱–	₱–	₱–	₱5,150,130
Unused commercial letters of credit	797,648	1,753,632	2,493,632	5,209,658	5,835,168	7,520,056	23,609,794
Outstanding guarantees	564,270	–	–	–	–	–	564,270
Inward bills for collection	174,809	210,565	57,252	19,757	–	–	462,383
Committed loan line	58,000	–	–	186,200	2,769,222	1,661,000	4,674,422
Outward bills for collection	49,189	6,530	158,123	51,422	–	–	265,264
Others	711,062	27,692	75,353	100,243	39,537	–	953,887
	₱7,505,108	₱1,998,419	₱2,784,360	₱5,567,280	₱8,643,927	₱9,181,056	₱35,680,150

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios and manages those portfolios separately.

The Group manages its market risk exposures through various established structures, processes and measurement tools.

- To maximize two distinct activities, trading and customer support, the Parent Company has split these functions into two distinct Business Units, Treasury and Strategic Risk Taking Group. Treasury has been tasked with managing customer flows, liquidity, as well as interest rate risk in the banking book, while the Strategic Risk Taking Group handles all proprietary trading of the Bank. Both units are assigned risk limits by the ROC. The Risk Management Group performs daily monitoring of compliance with policies, procedures and risk limits and accordingly makes recommendations, where appropriate.
- The ALCO is the senior decision making body for the management of all market risks related to asset and liability management, and the trading and accrual books.
- VaR is the statistical model used by the Parent Company to measure the market risk of its trading portfolio, with the confidence level is set at 99%. Moreover, the Group uses various defeasance periods per product type based on their liquidity as approved by the ROC.

The market risk measurement models are subjected to periodic back testing to ensure validity of market assumptions used.

Other risk management tools utilized by the Parent Company are as follows:

- Management action trigger
- Position and duration limits, where appropriate
- Mark-to-market valuation
- VaR limits
- EaR limits

Additional risk monitoring tools were likewise adopted to better cope with the fluid market environment. This came mainly in the form of sensitivity analyses to pinpoint vulnerabilities in terms of profit or loss and capital erosion.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

Interest rate risk exposures are reported via a repricing gap schedule. Interest rate risk exposures are reported via a repricing gap schedule. The repricing gap report highlights mismatches in the repricing tenors of assets and liabilities. Repricing gaps are calculated by distributing the statement of financial position accounts into time buckets based on the next repricing dates of individual items. The difference between the amount of the assets and the amount of the liabilities that will reprice within a particular time bucket constitutes a repricing gap.

The Group employs gap analysis to measure the sensitivity of its assets and liabilities to fluctuations in market interest rates for any given period. A positive gap occurs when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities and is favorable to the Group during a period of rising interest rates since it is in a better position to invest in higher yielding assets more quickly than it would need to refinance its interest bearing liabilities. Conversely, during a period of falling interest rates, a positively gapped position could result in a restrained growth or even a declining net interest income.

The following tables set forth the asset-liability gap position of the Group and of the Parent Company as of December 31, 2014 and 2013 (amounts in millions):

	Consolidated					
	Within 30 Days	**31 to 60 Days**	**61 to 180 Days**	**181 to 360 Days**	**Over 360 Days**	**Total**
December 31, 2014						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	**₱9,421**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,421**
Private bonds	**81**	–	–	–	–	**81**
Total HFT investments	**9,502**	–	–	–	–	**9,502**
Total financial assets at FVTPL	**9,502**	–	–	–	–	**9,502**
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP	**74,973**	**–**	**–**	**–**	**–**	**74,973**
Investment securities at amortized cost	**–**	**18**	**403**	**54**	**101,010**	**101,485**
Receivable from customers and other receivables - gross	**58,870**	**26,314**	**13,010**	**12,474**	**82,585**	**193,253**
Total financial assets at amortized cost	**133,843**	**26,332**	**13,413**	**12,528**	**183,595**	**369,711**
Total rate-sensitive assets	**143,345**	**26,332**	**13,413**	**12,528**	**183,595**	**379,213**
Rate-sensitive Financial Liabilities						
Deposit liabilities	**197,368**	**26,197**	**9,109**	**3,502**	**10,637**	**246,813**
Bills payable and SSURA	**60,928**	**13,373**	**1**	**1**	**5,299**	**79,602**
Total rate-sensitive liabilities	**258,296**	**39,570**	**9,110**	**3,503**	**15,936**	**326,415**
Asset-Liability Gap	**(₱114,951)**	**(₱13,238)**	**₱4,303**	**₱9,025**	**₱167,659**	**₱52,798**
December 31, 2013						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	₱625	₱–	₱–	₱–	₱–	₱625
Private bonds	946	–	–	–	–	946
Total HFT investments	1,571	–	–	–	–	1,571
Total financial assets at FVTPL	1,571	–	–	–	–	1,571
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP	60,086	–	–	–	–	60,086
Investment securities at amortized cost	291	240	435	535	77,013	78,514
Receivable from customers and other receivables - gross	39,577	21,025	16,145	12,367	76,694	165,808
Total financial assets at amortized cost	99,954	21,265	16,580	12,902	153,707	304,408
Total rate-sensitive assets	101,525	21,265	16,580	12,902	153,707	305,979
Rate-sensitive Financial Liabilities						
Deposit liabilities	157,588	20,342	10,481	3,620	13,918	205,949
Bills payable and SSURA	45,432	37,986	2,137	–	4,558	90,113
Total rate-sensitive liabilities	203,020	58,328	12,618	3,620	18,476	296,062
Asset-Liability Gap	(₱101,495)	(₱37,063)	₱3,962	₱9,282	₱135,231	₱9,917

	Parent Company					
	Within 30 Days	**31 to 60 Days**	**61 to 180 Days**	**181 to 360 Days**	**Over 360 Days**	**Total**
December 31, 2014						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	**₱9,421**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,421**
Private bonds	**81**	–	–	–	–	**81**
Total HFT investments	**9,502**	–	–	–	–	**9,502**
Total financial assets at FVTPL	**9,502**	–	–	–	–	**9,502**

(Forward)

	Parent Company					
	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	Total
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP	**₱73,718**	**₱–**	**₱–**	**₱–**	**₱–**	**₱73,718**
Investment securities at amortized cost	**–**	**18**	**51**	**54**	**100,910**	**101,033**
Receivable from customers and other receivables - gross	**56,803**	**26,314**	**11,920**	**11,485**	**77,435**	**183,957**
Total financial assets at amortized cost	**130,521**	**26,332**	**11,971**	**11,539**	**178,345**	**358,708**
Total rate-sensitive assets	**140,023**	**26,332**	**11,971**	**11,539**	**178,345**	**368,210**
Rate-sensitive Financial Liabilities						
Deposit liabilities	**193,896**	**26,117**	**6,287**	**2,695**	**10,287**	**239,282**
Bills payable and SSURA	**60,810**	**13,373**	**1**	**1**	**5,298**	**79,484**
Total rate-sensitive liabilities	**254,706**	**39,490**	**6,288**	**2,696**	**15,585**	**318,766**
Asset-Liability Gap	**(₱114,683)**	**(₱13,158)**	**₱5,683**	**₱8,843**	**₱162,760**	**₱49,444**
December 31, 2013						
Rate-sensitive Financial Assets						
Financial assets at FVTPL:						
HFT investments:						
Government securities	₱625	₱–	₱–	₱–	₱–	₱625
Private bonds	946	–	–	–	–	946
Total HFT investments	1,571	–	–	–	–	1,571
Total financial assets at FVTPL	1,571	–	–	–	–	1,571
Financial assets at amortized cost:						
Due from BSP and other banks and Interbank loans receivable and SPURA with the BSP	59,218	–	–	–	–	59,218
Investment securities at amortized cost	288	223	–	535	77,013	78,059
Receivable from customers and other receivables - gross	38,019	20,825	15,735	11,957	69,224	155,760
Total financial assets at amortized cost	97,525	21,048	15,735	12,492	146,237	293,037
Total rate-sensitive assets	99,096	21,048	15,735	12,492	146,237	294,608
Rate-sensitive Financial Liabilities						
Deposit liabilities	155,937	19,845	10,389	3,499	10,303	199,973
Bills payable and SSURA	45,432	37,986	2,137	–	4,558	90,113
Total rate-sensitive liabilities	201,369	57,831	12,526	3,499	14,861	290,086
Asset-Liability Gap	(₱102,273)	(₱36,783)	₱3,209	₱8,993	₱131,376	₱4,522

The following table provides for the average effective interest rates by period of repricing (or by period of maturity if there is no repricing) of the Group and of the Parent Company as of December 31, 2014 and 2013:

	Consolidated			Parent Company		
	Less than 3 months	3 months to 1 year	Greater than 1 year	Less than 3 months	3 months to 1 year	Greater than 1 year
December 31, 2014						
Peso						
Financial Assets						
Due from BSP	**2.50%**	–	–	**2.50%**	–	–
Due from banks	**0.14%**	–	–	**0.14%**	–	–
Investment securities*	**3.93%**	**3.01%**	**4.86%**	**2.46%**	**3.00%**	**4.85%**
Loans and receivables	**5.48%**	**6.89%**	**7.82%**	**5.25%**	**6.26%**	**5.17%**
Financial Liabilities						
Deposit liabilities other than LTNCD	**1.82%**	**1.68%**	**1.53%**	**1.82%**	**1.62%**	**1.53%**
LTNCD	–	–	**5.62%**	–	–	**5.62%**
Bills payable and SSURA	**5.94%**	–	**8.00%**	**3.19%**		**8.00%**
Subordinated note	–	–	**5.46%**	–	–	**5.46%**
USD						
Financial Assets						
Due from banks	**0.26%**	–	–	**0.26%**	–	–
Investment securities*	–	–	**4.22%**	–	–	**4.22%**
Loans and receivables	**2.54%**	**2.69%**	**4.40%**	**2.54%**	**2.69%**	**4.40%**
Financial Liabilities						
Deposit liabilities	**1.51%**	**1.63%**	**2.04%**	**1.53%**	**1.63%**	**2.04%**
Bills payable	**0.85%**	–	**1.10%**	**0.85%**	–	**1.10%**

	Consolidated			Parent Company		
	Less than 3 months	3 months to 1 year	Greater than 1 year	Less than 3 months	3 months to 1 year	Greater than 1 year
December 31, 2013						
Peso						
Financial Assets						
Due from BSP	2.00%	–	–	2.00%	–	–
RRP	3.50%	–	–	3.50%	–	–
Due from banks	0.27%	–	–	0.27%	–	–
Investment securities*	2.63%	1.73%	4.90%	2.63%	1.73%	5.05%
Loans and receivables	5.47%	5.11%	7.46%	5.37%	4.40%	6.92%
Financial Liabilities						
Deposit liabilities other than LTNCD	0.71%	1.78%	2.63%	0.65%	1.77%	2.63%
LTNCD	–	–	5.62%	–	–	5.62%
Bills payable and SSURA	–	–	8.00%	–	–	8.00%
USD						
Financial Assets						
Due from banks	0.08%	–	–	0.08%	–	–
Investment securities*	–	6.0%	4.78%	–	6.00%	4.78%
Loans and receivables	3.73%	5.00%	3.60%	3.73%	5.00%	3.60%
Financial Liabilities						
Deposit liabilities	1.47%	1.75%	1.17%	1.47%	1.75%	1.17%
Bills payable	0.80%	0.82%	1.10%	0.80%	0.82%	1.10%

** Consists of Financial assets at FVTPL and Investment securities at amortized cost*

Market Risk in the Trading Book

The Parent Company needs to measure VaR in order to have an idea on how the market value of an asset or of a portfolio of assets is likely to decrease over a certain time period as market factors randomly change.

VaR computation is a two-step process which involves calculation of the change in the Risk Factor then computing for the corresponding impact on profit or loss. The Risk Factor is defined as a variable that causes a change in the value of a financial instruments or a portfolio of financial instruments.

VaR Methodology

The Parent Company uses two different approaches - Variance-Covariance and Historical Simulation Method.

Variance-Covariance approach is based on the assumption that the market factors have a multivariate normal distribution. Using this assumption, the distribution of portfolio profits and losses is then also normal - normal in the sense that profits and losses follow the characteristics of the normal curve. Due to this assumption, it is possible to have an explicit formula for the quantile, since a relationship exists between standard deviation and confidence level, which will be used for the VaR computation.

Historical Simulation assumes that asset returns in the future will have the same distribution that they had in the past. It estimates VaR by reliving history, which involves using historical changes in market factors to construct a distribution of potential profits and losses, and then reading off the loss that is exceeded at a specified confidence level and period.

The Parent Company will use Historical Simulation in calculating the VaR of derivative instruments other than forwards and swaps. For linear instruments such as fixed income, forwards and swaps, the Variance-Covariance approach is used.

VaR Parameters
The Parent Company uses a 99.00% confidence level which translates to 2.326 standard deviations. To give a better picture, a 99.00% VaR can be taken as the 10th lowest of 1,000 profit and loss observations.

Defeasance period is the length of time that it takes for the Parent Company to fully close its position on a specific product/portfolio. The length of defeasance period depends on the nature of the portfolio.

For most products traded by the Parent Company, the standard defeasance period used is 5 days. However, for Foreign Exchange portfolio, the Parent Company uses a 1-day defeasance period and for Peso HFT portfolio, the defeasance period varies depending on the amount of open position. For Dollar Fixed Income securities, the Parent Company uses 2 days for Philippine government bonds, 5 days for other approved sovereign government bonds and 30 days for corporate bonds.

The VaR figures are backtested against actual and hypothetical profit and loss of the trading book to validate the robustness of the VaR model. Likewise, to complement VaR measure, the Parent Company performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Parent Company's VaR model.
Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures are monitored daily against the VaR limits. These limits are based on the tolerable risk appetite of the Parent Company.

The following table provides the VaR summary of the Parent Company for the year ended December 31, 2014 and 2013 (amounts in millions):

	Foreign Exchange	**Fixed Income**	**Foreign Exchange Swaps**	**Interest Rate Swap Agreements**	**Structured Products**
December 31, 2014					
2014-Average Daily	**₱15.887**	**₱164.280**	**₱47.672**	**₱25.107**	**₱115.072**
2014-Highest	**103.338**	**354.449**	**265.751**	**54.989**	**386.691**
2014-Lowest	**0.767**	**25.400**	**2.418**	**0.734**	**4.431**
As of December 31, 2014	**3.070**	**224.023**	**18.268**	**19.814**	**37.080**
December 31, 2013					
2013-Average Daily	₱5.421	₱105.199	₱15.176	₱29.783	₱68.37
2013-Highest	26.728	260.230	79.179	46.312	245.64
2013-Lowest	0.193	18.687	0.050	12.951	0.01
As of December 31, 2013	2.593	71.712	6.721	18.280	52.57

The Parent Company's trading in fixed income securities together with the interest rate swaps are exposed to movements in interest rates. The currency swaps and structured products of the Parent Company are exposed to multiple risk factors such as changes in foreign exchange rates, interest rates, and for some structured products, the volatility of these factors.

The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of individual portfolios may have occurred on different trading days.

Equity price risk
Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and the value of individual stocks.

The following tables set forth the impact of changes in the Philippine Stock Exchange Index (PSEi) on the Group's and the Parent Company's unrealized gain (loss) (in absolute amounts):

Financial Assets at FVTPL

	Consolidated			
	2014		2013	
Changes in PSEi	**9.70%**	**(9.70%)**	20.93%	(20.93%)
Change on trading income of equity portfolio under:				
Financial intermediaries	**₱2,414,402**	**(₱2,414,402)**	₱27,869,793	(₱27,869,793)
Mining and oil	**170,972**	**(170,972)**	5,250,081	(5,250,081)
Holding firms	**18,864**	**(18,864)**	31,163,927	(31,163,927)
Industrial companies	**25,379**	**(25,379)**	29,344,528	(29,344,528)
Property	**32,296**	**(32,296)**	27,245,504	(27,245,504)
Services	**76,957**	**(76,957)**	20,196,594	(20,196,594)
	₱2,738,870	**(₱2,738,870)**	₱141,070,427	(₱141,070,427)
As a percentage of the Group's net unrealized gain (loss) for the year	**35.92%**	**(35.92%)**	**(32.58%)**	32.58%

	Parent Company			
	2014		2013	
Changes in PSEi	**9.70%**	**(9.70%)**	20.93%	(20.93%)
Change on trading income of equity portfolio under:				
Financial intermediaries	**₱11,159**	**(₱11,159)**	₱20,811,902	(₱20,811,902)
Mining and oil	**211**	**(211)**	5,249,580	(5,249,580)
Industrial companies	**17,052**	**(17,052)**	29,343,337	(29,343,337)
Holding firms	**6,751**	**(6,751)**	31,162,063	(31,162,063)
Property	**13,115**	**(13,115)**	27,245,241	(27,245,241)
Services	**3,565**	**(3,565)**	20,085,969	(20,085,969)
	₱51,853	**(₱51,853)**	₱133,898,092	(₱133,898,092)
As a percentage of the Parent Company's net unrealized gain (loss) for the year	**0.59%**	**(0.59%)**	33.55%	(33.55%)

Financial Assets at FVTOCI

	Consolidated			
	2014		2013	
Changes in PSEi	**9.70%**	**(9.70%)**	20.93%	(20.93%)
Change in net unrealized loss of SBEI's PSE shares	**₱2,400,896**	**(₱2,400,896)**	₱7,298,288	(₱7,298,288)
As a percentage of SBEI's net unrealized gain (loss) for the year	**234.50%**	**(234.50%)**	40.95%	(40.95%)

The Group, except for SBEI, has no equity securities classified under Financial assets at FVTOCI as of December 31, 2014 and 2013, respectively, which are affected by changes in the PSEi as these securities are mainly golf and club shares.

Market Risk in the Non-Trading Book

The accrual book pertains to the assets and liabilities that make up the Parent Company's balance sheet. Such accrual positions are sensitive to changes in interest rates. The Parent Company monitors the exposure of non-trading assets and liabilities to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income.

The following tables set forth, for the period indicated, the sensitivity of the Parent Company's net interest income and equity to reasonably possible changes in interest rates with all other variables held constant:

	2014			
Currency	**PHP**		**USD**	
Changes in interest rates (in basis points)	**+100**	**-100**	**+100**	**-100**
Change in annualized net interest income*	**(₱320)**	**₱320**	**(₱502)**	**₱502**

	2013			
Currency	PHP		USD	
Changes in interest rates (in basis points)	+100	-100	+100	-100
Change in annualized net interest income*	(₱40)	₱40	(₱489)	₱489

**Amounts in millions*

Earnings-at-Risk (EAR) or the sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at each statement of financial position date. This approach focuses on the impact in profit or loss of holding on to the gaps over a 1-year time frame.

To control the interest rate repricing risk in the banking books, the Parent Company sets a limit on the Earnings at Risk (EAR) measure.

The Parent Company recognizes, however, that this metric assumes a "business-as-usual" scenario and, therefore, do not show potential losses under a "stress" scenario. To address this limitation, the Parent Company performs regular stress testing to test its ability to cope with adverse changes in interest rates under different stress scenarios. This process involves applying one-time interest rate shocks of different magnitudes to the current repricing gap positions in the balance sheet.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency-denominated deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held under the FCDU. As of December 31, 2014 and 2013, the Parent Company is in compliance with the said regulation.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following tables summarize the Group's and the Parent Company's exposure to currency risk as of December 31, 2014 and 2013. Included in the tables are the Group's and the Parent Company's assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine Peso equivalent).

	Consolidated					
	2014			2013		
	USD	**Others***	**Total**	USD	Others*	Total
Financial Assets						
Cash and cash equivalents	**₱280**	**₱162,847**	**₱163,127**	₱1,004	₱45,949	₱46,953
Due from other banks	**2,186,560**	**752,151**	**2,938,711**	1,696,044	517,819	2,213,863
Financial assets at FVTPL	**16,087**	**–**	**16,087**	21,800	–	21,800
Investment securities at amortized cost	**6,705,546**	**–**	**6,705,546**	18,058,011	–	18,058,011
Loans and receivables	**4,098,262**	**119,363**	**4,217,625**	4,254,797	5,837	4,260,634
Other assets	**160,418**	**–**	**160,418**	174,147	–	174,147
Total financial assets	**13,167,153**	**1,034,361**	**14,201,514**	24,205,803	569,605	24,775,408
Financial Liabilities						
Deposit liabilities	**–**	**417,111**	**417,111**	–	349,316	349,316
Financial liabilities at FVTPL	**–**	**–**	**–**	–	–	–
Derivative Liabilities	**–**	**–**	**–**	1,366	–	1,366
Bills payable and SSURA	**35,874,093**	**1,434**	**35,875,527**	34,161,915	921	34,162,836
Acceptances payable	**164,286**	**119,363**	**283,649**	565,444	5,837	571,281
Margin deposits and cash letters of credit	**22,179**	**–**	**22,179**	–	–	–
Accrued interest, taxes and other expenses	**–**	**9,902**	**9,902**	21,208	–	21,208
Other liabilities	**8,828**	**330**	**9,158**	13,729	171	13,900
Total financial liabilities	**36,069,386**	**548,140**	**36,617,526**	34,763,662	356,245	35,119,907
Currency Swaps and Forwards	**19,141,083**	**535,264**	**19,676,347**	8,140,490	(261,230)	7,879,260
Net Exposure	**(₱3,761,150)**	**₱1,021,485**	**(₱2,739,665)**	(₱2,417,369)	(₱47,870)	(₱2,465,239)

	Parent Company					
	2014			2013		
	USD	**Others**	**Total**	USD	Others*	Total
Financial Assets						
Cash and cash equivalents	**₱–**	**₱162,847**	**₱162,847**	₱–	₱45,949	₱45,949
Due from other banks	**2,186,560**	**752,151**	**2,938,711**	1,696,044	517,819	2,213,863
Financial assets at FVTPL	**16,087**	**–**	**16,087**	21,800	–	21,800
Investment securities at amortized cost	**6,705,546**	**–**	**6,705,546**	18,058,011	–	18,058,011
Loans and receivables	**4,056,933**	**119,363**	**4,176,296**	4,213,031	5,837	4,218,868
Other assets	**160,418**	**–**	**160,418**	174,147	–	174,147
Total financial assets	**13,125,544**	**1,034,361**	**14,159,905**	24,163,033	569,605	24,732,638
Financial Liabilities						
Deposit liabilities	**–**	**417,111**	**417,111**	–	349,316	349,316
Financial liabilities at FVTPL	**–**	**–**	**–**	–	–	–
Derivative liabilities	**–**	**–**	**–**	1,366	–	1,366
Bills payable and SSURA	**35,874,093**	**1,434**	**35,875,527**	34,161,915	921	34,162,836
Acceptances payable	**164,286**	**119,363**	**283,649**	565,444	5,837	571,281
Margin deposits and cash letters of credit	**22,179**	**–**	**22,179**	–	–	–
Accrued interest, taxes and other expenses	**–**	**9,902**	**9,902**	21,208	–	21,208
Other liabilities	**1,691**	**330**	**2,021**	5,694	171	5,865
Total financial liabilities	**36,062,249**	**548,140**	**36,610,389**	34,755,627	356,245	35,111,872
Currency Swaps and Forwards	**19,141,083**	**535,264**	**19,676,347**	8,140,490	(261,230)	7,879,260
Net Exposure	**(₱3,795,622)**	**₱1,021,485**	**(₱2,774,137)**	(₱2,452,104)	(₱47,870)	(₱2,499,974)

* Consists of Euro, British pound, Australian dollar, Canadian dollar, Hong Kong dollar, Singapore dollar, New Zealand dollar, Swiss franc, Japanese yen, Danish kroner, Thai baht, Chinese yuan, and South Korean won

Information relating to the Parent Company's currency derivatives are disclosed in Note 6. The Parent Company has outstanding cross-currency swaps with notional amount of ₱0.5 million and nil as of December 31, 2014 and 2013, respectively, and foreign currency forward transactions with notional amount of USD1.2 billion (bought) and USD0.7 billion (sold) as of December 31, 2014, and USD0.4 billion (bought) and USD0.2 billion (sold) as of December 31, 2013.

The impact of the range of reasonably possible changes in the US Dollar-Philippine Peso exchange rate (except those in the FCDU books) on the Parent Company's non-consolidated pre-tax income in 2014 and 2013 has been included in the VaR summary per product line.

6. Fair Value Measurement and Derivative Transactions

The following table provides the fair value hierarchy of the Group's and Parent Company's assets and liabilities measured at fair value and those for which fair values should be disclosed:

	Consolidated				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2014					
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱9,420,510	₱9,420,510	₱9,420,510	₱–	₱–
Private bonds	81,377	81,377	81,377	–	–
Equity securities	649,108	649,108	649,108	–	–
Total HFT investments	10,150,995	10,150,995	10,150,995	–	–
Derivative assets:					
Currency forwards	308,036	308,036	–	308,036	–
Interest rate swaps	443,299	443,299	–	443,299	–
Currency options	4,329	4,329	–	4,329	–
Cross-currency swaps	46	46	–	46	–
Total derivative assets	755,710	755,710	–	755,710	–
Others	15,117	15,117	–	15,117	–
Total financial assets at FVTPL	10,921,822	10,921,822	10,150,995	770,827	–
Financial assets at FVTOCI	150,780	150,780	150,780	–	–
	₱11,072,602	₱11,072,602	₱10,301,775	₱770,827	₱–
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost:					
Treasury bonds	₱60,557,383	₱63,661,842	₱63,661,842	₱–	₱–
Treasury notes and bills	29,395,421	32,487,547	32,487,547	–	–
Private bonds	11,532,039	11,417,389	11,417,389	–	–
Total investment securities at amortized cost	101,484,843	107,566,778	107,566,778	–	–
Receivable from customers:					
Corporate lending	169,336,066	177,690,232	–	–	177,690,232
Consumer lending	5,824,988	7,460,404	–	–	7,460,404
Small business lending	3,716,170	4,084,233	–	–	4,084,233
Residential mortgages	8,126,532	9,348,694	–	–	9,348,694
Others	564,615	583,791	–	–	583,791
Total receivable from customers	187,568,371	199,167,354	–	–	199,167,354
Other receivables	6,435,715	6,931,981	–	–	6,931,981
Other assets	1,112,982	1,110,272	–	–	1,110,272
Total financial assets at amortized cost	296,601,911	314,776,385	107,566,778	–	207,209,607
Non-financial Assets					
Investment properties	1,780,886	3,343,179	–	–	3,343,179
	₱298,382,797	₱318,119,564	₱107,566,778	₱–	₱210,552,786

(Forward)

	Consolidated				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	**₱119,205**	**₱119,205**	**₱–**	**₱119,205**	**₱–**
Interest rate swaps	**460,600**	**460,600**	**–**	**460,600**	**–**
Currency options	**2,822**	**2,822**	**–**	**2,822**	**–**
Cross-currency swaps	**240**	**240**	**–**	**240**	**–**
Total financial liabilities at FVTPL	**582,867**	**582,867**	**–**	**582,867**	**–**
Derivative liabilities designated as hedges	**58,288**	**58,288**	**–**	**58,288**	**–**
	₱641,155	**₱641,155**	**₱–**	**₱641,155**	**₱–**
Liabilities for which Fair Values are Disclosed					
Deposit liabilities excluding LTNCD	**₱236,860,364**	**₱239,281,300**	**₱–**	**₱239,281,300**	**₱–**
LTNCD	**9,952,430**	**11,193,355**	**–**	**11,193,355**	**–**
Subordinate debt	**9,933,491**	**11,747,466**	**–**	**11,747,466**	**–**
Bills payable and SSURA	**79,601,534**	**78,200,908**	**–**	**78,200,908**	**–**
	₱336,347,819	**₱340,423,029**	**₱–**	**₱340,423,029**	**₱–**
December 31, 2013					
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱624,673	₱624,673	₱624,673	₱–	₱–
Private bonds	946,003	946,003	946,003	–	–
Equity securities	791,207	791,207	791,207	–	–
Total HFT investments	2,361,883	2,361,883	2,361,883	–	–
Derivative assets:					
Currency forwards	429,022	429,022	–	429,022	–
Interest rate swaps	705,631	705,631	–	705,631	–
Warrants	116,657	116,657	–	116,657	–
Total derivative assets	1,251,310	1,251,310	–	1,251,310	–
Others	15,117	15,117	–	15,117	–
Total financial assets at FVTPL	3,628,310	3,628,310	2,361,883	1,266,427	–
Financial assets at FVTOCI	144,132	144,132	144,132	–	–
	₱3,772,442	₱3,772,442	₱2,506,015	₱1,266,427	₱–
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost:					
Treasury bonds	₱62,392,727	₱62,009,529	₱62,009,529	₱–	₱–
Treasury notes and bills	6,294,859	6,620,717	6,620,717	–	–
Private bonds	9,826,855	9,322,434	9,322,434	–	–
Total investment securities at amortized cost	78,514,441	77,952,680	77,952,680	–	–
Receivable from customers:					
Corporate lending	148,737,235	163,293,391	–	–	163,293,391
Consumer lending	3,156,144	3,769,134	–	–	3,769,134
Small business lending	3,207,893	3,628,677	–	–	3,628,677
Residential mortgages	3,363,166	3,153,052	–	–	3,153,052
Total receivable from customers	158,464,438	173,844,254	–	–	173,844,254
Other receivables	6,777,123	5,324,562	–		5,324,562
Other assets	1,359,282	1,359,282	–	1,359,282	–
Total financial assets at amortized cost	245,115,284	258,480,778	77,952,680	1,359,282	179,168,816
Non-financial Assets					
Investment properties	1,836,090	2,377,560	–	–	2,377,560
	₱246,951,374	₱260,858,338	₱77,952,680	₱1,359,282	₱181,546,376
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	₱28,634	₱28,634	₱–	₱28,634	₱–
Interest rate swaps	727,726	727,726	–	727,726	–
Currency options	28,416	28,416	–	28,416	–
Total financial liabilities at FVTPL	784,776	784,776	–	784,776	–
Derivative liabilities designated as hedges	93,343	93,343	–	93,343	–
	₱878,119	₱878,119	₱–	₱878,119	₱–

	Consolidated				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities for which Fair Values are Disclosed					
Deposit liabilities excluding LTNCD	₱196,007,172	₱197,863,812	₱–	₱197,863,812	₱–
LTNCD	9,943,113	11,349,657	–	11,349,657	–
Bills payable and SSURA	90,112,946	90,124,536	–	90,124,536	–
	₱296,063,231	₱299,338,005	₱–	₱299,338,005	₱–

	Parent Company				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2014					
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	**₱9,420,510**	**₱9,420,510**	**₱9,420,510**	**₱–**	**₱–**
Private bonds	**81,377**	**81,377**	**81,377**	**–**	**–**
Equity securities	**646,909**	**646,909**	**646,909**	**–**	**–**
Total HFT investments	**10,148,796**	**10,148,796**	**10,148,796**	**–**	**–**
Derivative assets:					
Currency forwards	**308,036**	**308,036**	**–**	**308,036**	**–**
Interest rate swaps	**443,299**	**443,299**	**–**	**443,299**	**–**
Warrants	**4,329**	**4,329**	**–**	**4,329**	**–**
Cross-currency swaps	**46**	**46**	**–**	**46**	**–**
Total derivative assets	**755,710**	**755,710**	**–**	**755,710**	**–**
Others	**15,094**	**15,094**	**–**	**15,094**	**–**
Total financial assets at FVTPL	**10,919,600**	**10,919,600**	**10,148,796**	**770,804**	**–**
Financial assets at FVTOCI	**70,770**	**70,770**	**70,770**	**–**	**–**
	₱10,990,370	**₱10,990,370**	**₱10,219,566**	**₱770,804**	**₱–**
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost:					
Treasury bonds	**₱60,457,383**	**₱63,556,782**	**₱63,556,782**	**₱–**	**₱–**
Treasury notes and bills	**29,394,407**	**32,487,547**	**32,487,547**	**–**	**–**
Private bonds	**11,181,354**	**11,066,704**	**11,066,704**	**–**	**–**
Total investment securities at amortized cost	**101,033,144**	**107,111,033**	**107,111,033**	**–**	**–**
Receivable from customers:					
Corporate lending	**168,666,280**	**177,227,581**	**–**	**–**	**177,227,581**
Consumer lending	**1,724,921**	**1,831,801**	**–**	**–**	**1,831,801**
Small business lending	**3,716,170**	**3,870,912**	**–**	**–**	**3,870,912**
Residential mortgages	**3,776,722**	**3,931,740**	**–**	**–**	**3,931,740**
Others	**564,615**	**583,791**	**–**	**–**	**583,791**
Total receivable from customers	**178,448,708**	**187,445,825**	**–**	**–**	**187,445,825**
Other receivables	**5,930,713**	**6,024,860**	**–**	**6,024,860**	**–**
Other assets	**1,074,687**	**1,074,687**	**–**	**1,074,687**	**–**
Total financial assets at amortized cost	**286,487,252**	**301,656,405**	**107,111,033**	**7,099,547**	**187,445,825**
Non-financial Assets					
Investment properties	**323,655**	**891,518**	**–**	**–**	**891,518**
	₱286,810,907	**₱302,547,923**	**₱107,111,033**	**₱7,099,547**	**₱188,337,343**
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	**₱119,205**	**₱119,205**	**₱–**	**₱119,205**	**₱–**
Warrants	**2,822**	**2,822**	**–**	**2,822**	**–**
Interest rate swaps	**460,600**	**460,600**	**–**	**460,600**	**–**
Cross-currency swaps	**240**	**240**	**–**	**240**	**–**
Total financial liabilities at FVTPL	**582,867**	**582,867**	**–**	**582,867**	**–**
Derivative liabilities designated as hedges	**58,288**	**58,288**	**–**	**58,288**	**–**
	₱641,155	**₱641,155**	**₱–**	**₱641,155**	**₱–**

		Parent Company			
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities for which Fair Values are Disclosed					
Financial liabilities at amortized cost:					
Deposit liabilities excluding LTNCD	**₱229,329,878**	**₱229,745,303**	**₱–**	**₱229,745,303**	**₱–**
LTNCD	**9,952,430**	**11,193,355**		**11,193,355**	**–**
Subordinated note	**9,933,491**	**11,747,466**		**11,747,466**	
Bills payable and SSURA	**79,483,534**	**78,082,908**	**–**	**79,483,534**	**–**
	₱328,699,333	**₱330,769,032**	**₱–**	**₱332,169,658**	**₱–**
December 31, 2013					
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱624,673	₱624,673	₱624,673	₱–	₱–
Private bonds	946,003	946,003	946,003	–	–
Equity securities	720,696	720,696	720,696	–	–
Total HFT investments	2,291,372	2,291,372	2,291,372	–	–
Derivative assets:					
Currency forwards	429,022	429,022	–	429,022	–
Interest rate swaps	705,631	705,631	–	705,631	–
Warrants	116,657	116,657	–	116,657	–
Total derivative assets	1,251,310	1,251,310	–	1,251,310	–
Others	15,094	15,094	–	15,094	–
Total financial assets at FVTPL	3,557,776	3,557,776	2,291,372	1,266,404	–
Financial assets at FVTOCI	64,260	64,260	64,260	–	–
	₱3,622,036	₱3,622,036	₱2,355,632	₱1,266,404	₱–
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost:					
Treasury bonds	₱62,292,727	₱61,900,174	₱61,900,174	₱–	₱–
Treasury notes and bills	6,293,807	6,620,717	6,620,717	–	–
Private bonds	9,472,822	8,972,434	8,972,434	–	–
Total investment securities at amortized cost	78,059,356	77,493,325	77,493,325	–	–
Receivable from customers:					
Corporate lending	147,864,923	160,830,350	–	–	160,830,350
Consumer lending	826,815	899,313	–	–	899,313
Small business lending	3,336,149	3,628,677	–	–	3,628,677
Total receivable from customers	152,027,887	165,358,340	–	–	165,358,340
Other receivables	3,961,816	4,472,520	–	–	4,472,520
Other assets	858,568	858,568	–	–	858,568
Total financial assets at amortized cost	234,907,627	248,182,753	77,493,325	–	170,689,428
Non-financial Assets					
Investment properties	374,459	557,092	–	–	557,092
	₱235,282,086	₱248,739,845	₱77,493,325	₱–	₱171,246,520
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Currency forwards	₱28,634	₱28,634	₱–	₱28,634	₱–
Interest rate swaps	727,726	727,726	–	727,726	–
Interest rate swaps	28,416	28,416	–	28,416	–
Total financial liabilities at FVTPL	784,776	784,776	–	784,776	–
Derivative liabilities designated as hedges	93,343	93,343	–	93,343	–
	₱878,119	₱878,119	₱–	₱878,119	₱–
Liabilities for which Fair Values are Disclosed					
Financial liabilities at amortized cost:					
Deposit liabilities excluding LTNCD	₱190,030,215	₱190,406,279	₱–	₱190,406,279	₱–
LTNCD	9,943,113	11,349,657	–	11,349,657	–
Bills payable and SSURA	90,112,899	90,124,489	–	90,124,489	–
Total	₱290,086,227	₱291,880,425	₱–	₱291,880,425	₱–

During the years ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The methods and assumptions used by the Group in estimating the fair value of its financial instruments are:

COCI, due from BSP and other banks and interbank loans receivable and SPURA with the BSP
The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Debt securities
Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities
Fair values of quoted equity securities are based on quoted market prices. The unquoted equity securities are carried at cost net of impairment since there is insufficient information available to determine its fair values.

Receivable from customers, sales contracts receivable and unquoted debt securities classified as loans (included under 'Other receivables')
Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

Significant unobservable inputs	Range (weighted average)
Transfer pool rate	3.25% - 5.00%
Credit spread	1.00% - 4.00%

Other receivables - Accounts receivable
Carrying amounts approximate fair values given their short-term nature.

Investment properties
Fair value of investment properties are determined by independent or in-house appraisers using the market data approach. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued. Significant unobservable inputs in determining fair values include the following:

Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Time element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time, in which case, the current data is superior to historic data.

Discount	Generally, asking prices in advertisements posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Other financial assets
The carrying amounts approximate fair values due to their short-term nature.

Derivative instruments
Fair values of quoted warrants are based on quoted market prices. Other derivative products are valued using valuation techniques using market observable inputs including foreign exchange rates and interest rate curves prevailing at the statement of financial position date. For interest rate swaps, cross-currency swaps and foreign exchange contracts, discounted cash flow model is applied. This valuation model discounts each cash flow of the derivatives at a rate that is dependent on the tenor of the cash flow. European currency options are valued using the Garman-Kohlhagen model which estimates the value of the option with the assumption that the risk-free rate paid on a foreign currency is a continuous dividend yield. European bond options are valued using the Black 76 model which incorporates in its formula the price variation of the underlying bond, the time value of money, the option's strike price and the time to the option's expiry.

Deposit liabilities (demand and savings deposits excluding long-term savings deposits)
The carrying amounts approximate fair values considering that these are due and demandable.

Long-term savings deposits, time deposits, Long-term negotiable certificates of deposit (LTNCD), bills payable and SSURA, and subordinated note
Fair values of time deposits, LTNCD, bills payable and SSURA, and subordinated note are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Other financial liabilities
For accrued interest and other expenses and other financial liabilities, the carrying amounts approximate fair values due to their short-term nature.

<u>Derivative Financial Instruments</u>
The following tables set out the information about the Group's and the Parent Company's derivative financial instruments and the related fair values:

	2014			2013		
	Notional Amounts	**Derivative Asset (Note 9)**	**Derivative Liability (Note 18)**	Notional Amounts	Derivative Asset (Note 9)	Derivative Liability (Note 18)
Forward exchange bought	**USD1,151,156**	**₱270,027**	**₱86,025**	USD391,966	₱415,327	₱7,209
Forward exchange sold	**USD726,572**	**38,009**	**33,180**	USD249,561	13,695	21,425
Interest rate swaps	**₱142,672,846**	**443,299**	**460,600**	₱80,166,163	705,631	727,726
Warrants	**USD250,258**	**–**	**2,822**	USD250,258	116,657	–
Currency options	**₱3,014,444**	**4,329**	**–**	₱22,420,288	–	28,416
Cross-currency swaps	**USD506**	**46**	**240**	USD–	–	–
		₱755,710	**₱582,867**		₱1,251,310	₱784,776

The movements in the Group's and the Parent Company's derivative financial instruments follow:

	2014	2013
Derivative Assets		
Balance at beginning of year	**₱1,251,310**	₱2,266,723
Fair value changes during the year	**(175,638)**	(991,548)
Settled transactions	**(319,962)**	(23,865)
Balance at end of year	**₱755,710**	₱1,251,310
Derivative Liabilities		
Balance at beginning of year	**₱784,776**	₱1,895,072
Fair value changes during the year	**(277,386)**	(1,833,036)
Settled transactions	**75,477**	722,740
Balance at end of year	**₱582,867**	₱784,776

Fair value changes of derivatives other than forward contracts amounting to ₱241.5 million loss in 2014 and ₱268.9 million gain in 2013 are recognized as 'Trading and securities gain' in the statements of income (see Note 8), while fair value changes on forward contracts amounting to ₱211.6 million loss in 2014 and ₱572.6 million gain in 2013 are recognized as 'Foreign exchange gain (loss) - net' in the statements of income.

On December 20, 2013, the BSP approved the Parent Company's application for additional Type 2 derivatives authority on the following derivative products:
a. Non Deliverable/Net settled/Cash Settled Options on FX, Bonds and Gold
b. Deliverable American Options on FX, Bonds and Gold
c. Deliverable Exotic Options on FX, Bonds and Gold
d. Gold Forwards
e. Bond Forwards
f. Non Deliverables Swaps
g. Asset Swaps

On February 7, 2012, the BSP approved the Parent Company's application for additional Type 3 derivatives authority on the following instruments:
a. European and American foreign currency forwards (plain vanilla and exotic)
b. Bond and gold forwards
c. Credit default swaps

On August 13, 2008, the BSP approved the Parent Company's application for a Type 2 Limited Dealer Authority and Type 3 Limited User Authority under BSP Circular No. 594 dated January 8, 2008 to engage in the following types of derivatives:

Type 2 Limited Dealer Authority (Stand-alone only):
a. Foreign exchange forwards (including non-deliverable forwards)
b. Forward rate agreements
c. Options
d. Interest rate swaps
e. Currency swaps/cross currency swaps/foreign exchange swaps

Type 3 End-User Authority
a. Credit-linked notes
b. Range accrual notes/swaps

As of December 31, 2014 and 2013, the Parent Company has positions in the following types of derivatives:

Forwards
Forward contracts are contractual agreements to buy or sell a specified instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Parent Company with other financial institutions in which the Parent Company either receives or pays a floating rate in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Parent Company pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Options
Options are contractual agreements that convey the right, but not the obligation, for the holder either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative financial instruments held or issued for trading purposes
The Parent Company's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Parent Company may also take positions with the expectation of generating profit from favorable movements in prices and rates on indices. Also included under this heading are any derivatives which do not meet hedge accounting requirements.

Derivative financial instruments held or issued for hedging purposes
As part of its asset and liability management, the Parent Company used derivatives for hedging purposes in order to reduce its exposure to market risks that is achieved by hedging portfolios of fixed rate financial instruments.

The accounting treatment explained in Note 2 to the financial statements, *Hedge Accounting*, varies according to the nature of the item hedged and compliance with the hedge criteria. Hedges entered into by the Parent Company which provide economic hedges but do not meet the hedge accounting criteria are treated as Derivatives Held or Issued for Trading Purposes.

Fair value hedges
Fair value hedges are used by the Parent Company to protect its portfolio against changes in fair value of financial assets due to movements in interest rates. The financial instruments hedged for interest rate risk represents receivables from customers. The Parent Company uses interest rate swaps to hedge against identified interest rate risks (see Note 19).

7. Interest Income on Financial Investments

This account consists of interest income on:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Financial assets at FVTPL (Note 9):						
Derivatives	**₱812,260**	₱1,082,187	₱832,176	**₱812,260**	₱1,082,187	₱832,176
Held-for-trading	**232,862**	244,778	587,659	**232,862**	244,778	586,706
Others	–	52,911	263,288	–	52,911	263,288
	1,045,122	1,379,876	1,683,123	**1,045,122**	1,379,876	1,682,170
Investment securities at amortized cost (Note 11)	**4,800,766**	2,260,678	2,566,162	**4,780,616**	2,240,244	2,547,092
	₱5,845,888	₱3,640,554	₱4,249,285	**₱5,825,738**	₱3,620,120	₱4,229,262

Peso-denominated HFT investments earn annual interest rates ranging from 1.63% to 14.38% in 2014 and 2013, and from 4.63% to 18.25% in 2012, while foreign currency-denominated HFT investments earn annual interest rates ranging from 4.00% to 10.63%, from 2.75% to 9.88%, and from 0.63% to 11.88% in 2014, 2013 and 2012, respectively.

Financial assets at FVTPL - Others pertain to investments that are not held for trading but do not qualify for amortized cost classification in the case of debt securities, and are not designated as FVTOCI in the case of equity securities (see Note 9). In 2013, this asset pertains to investments in equity securities. In 2012, this includes a peso-denominated loan receivable that bears fixed nominal annual interest rate of 15.70% minus 3-month PDST-F, a foreign currency denominated Credit-Linked Note (CLN) that bears interest based on 3-month LIBOR plus an agreed spread of 3.00% per annum and a contingently prepayable foreign-currency denominated loan receivable that bears floating interest rate based on 6-month LIBOR plus agreed spread of 2.40%. These all matured in 2013.

Peso-denominated investment securities at amortized cost earn annual interest rates ranging from 1.63% to 14.38% in 2014, 5.93% to 12.38% in 2013, and 5.88% to 12.38% in 2012, while foreign currency-denominated investment securities at amortized cost earn annual interest rates ranging from 4.00% to 10.63%% in 2014 and 4.00% to 9.50% in 2013 and 2012.

8. Trading and Securities Gain

Net gains from trading/disposal of investment securities follow:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Investment securities at amortized cost (Note 11)	**₱3,079,540**	₱2,212,225	₱3,273,345	**₱3,079,540**	₱2,212,225	₱3,273,345
Financial instruments at FVTPL:						
Held-for-trading investments (Note 9)	**₱757,375**	(₱191,628)	₱808,765	**₱755,457**	(₱122,244)	₱813,688
Derivatives (Note 6)	**(241,468)**	268,929	95,451	**(241,469)**	268,929	95,451
Financial assets at FVTPL - others (Note 9)	–	(44,537)	(62,613)	–	(44,536)	(62,613)
	₱515,907	₱32,764	₱841,603	**₱513,988**	₱102,149	₱846,526

The Parent Company disposed certain dollar-denominated bonds held under the HTC business model with carrying amount of USD1.5 billion (₱65.0 billion) from June to September 2014. The disposal resulted to a gain of USD69.8 million (₱3.1 billion) (see Note 11).

In 2013, The Parent Company disposed certain dollar-denominated bonds held under the HTC business model with carrying amount of USD900.4 million (₱39.9 billion). The disposal resulted in a gain of USD49.5 million (₱2.2 billion) (see Note 11).

In May to June 2012, to fund its growing lending requirements, the Parent Company disposed of a substantial portion of its portfolio of Peso-denominated government securities held under the HTC business model with an aggregate face amount of ₱17.0 billion. The disposals resulted to a gain of ₱3.3 billion and constitute a change in its business model for the portfolio (i.e., from HTC to realization of fair value changes). As a result of the change in its business model, the Parent Company reclassified at the beginning of the third quarter in 2012 the remaining securities in the portfolio with carrying amount and fair value of ₱0.4 million as of reclassification date to financial assets at FVTPL. In 2013, the Parent Company reintroduced the HTC business model for its peso-denominated government securities (see Note 11).

9. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Held-for-trading:				
Government securities	**₱9,420,510**	₱624,673	**₱9,420,510**	₱624,673
Equity securities	**649,108**	791,207	**646,909**	720,696
Private bonds	**81,377**	946,003	**81,377**	946,003
	10,150,995	2,361,883	**10,148,796**	2,291,372
Derivative assets (Note 6):				
Interest rate swaps	**443,299**	705,631	**443,299**	705,631
Currency forwards	**308,036**	429,022	**308,036**	429,022
Options	**4,329**	–	**4,329**	–
Cross-currency swaps	**46**	–	**46**	–
Warrants	–	116,657	–	116,657
	755,710	1,251,310	**755,710**	1,251,310
Others	**15,117**	15,117	**15,094**	15,094
	₱10,921,822	₱3,628,310	**₱10,919,600**	₱3,557,776

As of December 31, 2014 and 2013, 'Others' pertain to the Parent Company's and SBCIC's equity investments with aggregate carrying amount of ₱15.1 million which are not designated as at FVTOCI. These are financial assets not held for trading purposes, but do not qualify for amortized cost classification.

As of December 31, 2014 and 2013, Financial assets at FVTPL include net unrealized gain of ₱0.7 billion and ₱1.0 billion, respectively, for the Group and the Parent Company.

Fair value gains or losses on financial assets at FVTPL (other than currency forwards) are included in 'Trading and securities gain - net' (see Note 8) in the statements of income. Fair value gains or losses on currency forwards are included in 'Foreign exchange gain (loss) - net' in the statements of income (see Note 6).

10. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
PSE shares	**₱53,097**	₱53,489	**₱–**	₱–
Golf shares	**97,683**	90,643	**70,770**	64,260
Balance at end	**₱150,780**	₱144,132	**₱70,770**	₱64,260

PSE shares were obtained by SBEI in 2001 as a result of the demutualization of its membership shares in the stock exchange. These investments were for long-term strategic purpose. SBEI designated these equity securities as financial assets at FVTOCI as management believes that this provides a more meaningful presentation for medium or long-term strategic investments, rather than reflecting changes in fair value immediately in the statements of income. The Group also adopted the same classification for its investments in golf shares.

In February and March 2013, SBEI sold certain PSE shares with market value at the time of sale of ₱22.2 million and realized a gain of ₱10.0 million through Surplus.

SBEI recognized dividend income, included in 'Miscellaneous income' in the statements of income, amounting to ₱1.6 million and ₱1.3 million from its investments in PSE shares in 2014 and 2013, respectively (see Note 30).

The movements in Net unrealized gain on financial assets at FVTOCI follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Balance at beginning of year	**₱64,940**	₱90,168	**₱35,420**	₱44,530
Comprehensive income realized directly in Surplus	**–**	(9,990)	**–**	–
Unrealized gains (losses) for the year	**6,763**	(15,238)	**6,510**	(9,110)
Balance at end of year	**₱71,703**	₱64,940	**₱41,930**	₱35,420

11. Investment Securities at Amortized Cost

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Treasury bonds (Note 20)	**₱60,557,383**	₱62,392,727	**₱60,457,383**	₱62,292,727
Private bonds (Note 20)	**11,532,039**	9,826,855	**11,181,354**	9,472,822
Treasury notes and bills (Notes 20 and 26)	**29,395,421**	6,294,859	**29,394,407**	6,293,807
	₱101,484,843	₱78,514,441	**₱101,033,144**	₱78,059,356

In January 2014, as part of the general cash management program and broader program to manage its external liabilities, the Republic of the Philippines executed a cash tender offer. Under the cash tender offer, the government offered selected US dollar-denominated securities for buyback. The Parent Company submitted its holdings of eligible bonds that resulted in the derecognition of certain HTC securities. US dollar-denominated investment securities at amortized cost with carrying amount of USD1.3 million (₱57.4 million) were tendered which resulted in a gain of

USD6,907 (₱0.3 million). The Parent Company concluded that the participation in these government-initiated offerings did not violate its HTC business model as it was not driven by the realization of fair value gains, as supported by the following:

- The main motivation of the Parent Company in participating was to protect itself from the possible adverse impact on the liquidity of the eligible securities. There is high likelihood that the securities will become illiquid after the offerings.
- The securities submitted for the offerings were purchased by the Parent Company prior to the announcement by the government of the securities eligible for the offerings.
- Fair value did not play a role in the selection of the securities to be tendered as the government provided a list of eligible securities for the offerings.
- The participation in the offerings was not anticipated as the offerings are not frequent exercises of the government.

On February 25, 2014, the Parent Company's BOD approved the alignment of SBS with the overall strategic direction of the Parent Company through the acquisition of certain assets and assumption of certain liabilities of the SBS by the Parent Company for a consideration (see Note 37). The move was to achieve structural alignment to better take advantage of changing market conditions and customer needs and understand new emerging markets, product portfolios and address customer needs.

On May 22, 2014, the Monetary Board of the BSP approved the adoption of a prudential Real Estate Stress Test (REST) limit for universal/commercial banks and thrift banks on a solo and consolidated basis on their aggregate real estate exposures, as provided under BSP Circular No. 839, *Real Estate Stress Test Limit for Real Estate Exposures*, dated June 27, 2014. The REST limit combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

As part of the Parent Company's broader capital management measures, and in response to the effect of the above requirements to the Group and Parent Company's CET I ratio, considering the Group's targeted growth and the Parent Company's acquisition of SBS' assets and liabilities, the Parent Company decided to increase its CET I capital level through the disposal of certain securities under the HTC business model with carrying amount of USD1.5 billion (₱65.0 billion). The disposal resulted to an increase in CET I capital of ₱3.1 billion. The Parent Company concluded that the disposal did not violate its HTC business model since it was attributable to a significant increase in regulatory capital requirements that caused the Parent Company to downsize by selling securities under the amortized cost category and was attributable to an isolated event that was beyond the Parent Company's control, was nonrecurring and could not have been reasonably anticipated.

In August to October 2013, the Parent Company disposed of certain dollar denominated bonds held under the HTC business model with an aggregate face amount of USD900.4 million in view of the significant increase in the industry's regulatory capital requirements. The disposals resulted to an increase in capital of ₱2.2 billion. The Parent Company concluded that the disposal does not violate its HTC business model as the change in intention was primarily driven by the need to increase capital position in view of the significant increase in the industry's regulatory capital requirements in preparation for Basel III effective January 1, 2014.

In 2013, the Parent Company reinstated the Philippine peso-denominated government securities HTC business model. The significant increase in peso demand and savings deposits, as a result of the BSP Memorandum No. M-2013-021 issued in 2013, which limits access of entities to the SDA

facility of BSP, resulted in a positive gap position. In addition, the growth in core CASA accorded the Parent Company additional long-term stable funding. With consideration to VaR and EaR, management deemed it prudent and necessary to reintroduce the HTC Peso-denominated government securities business model. The HTC Peso-denominated government securities portfolio will provide the Parent Company an alternative earning assets base apart from loans that is aligned with the funding growth and that optimizes related returns.

As discussed in Note 20, certain investment securities were pledged with foreign and local banks as collateral for SSURA. In addition, as discussed in Note 26, as of December 31, 2014 and 2013, government securities included under 'Investment securities at amortized cost' with a total face value of ₱425.2 million and ₱672.2 million, respectively, were deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Parent Company's trust functions.

12. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Receivable from customers:				
Corporate lending	**₱172,390,956**	₱151,110,353	**₱171,729,331**	₱149,160,738
Consumer lending	**5,931,431**	3,284,131	**1,774,972**	–
Small business lending	**3,768,441**	3,281,468	**3,750,823**	3,281,468
Residential mortgages	**8,201,136**	3,407,542	**3,809,763**	–
Others	**565,680**	1,001,733	**565,680**	1,001,733
	190,857,644	162,085,227	**181,630,569**	153,443,939
Less unearned discounts and deferred credits	**180,112**	198,874	**127,711**	150,878
	190,677,532	161,886,353	**181,502,858**	153,293,061
Accrued interest receivable	**3,626,015**	2,631,220	**3,555,657**	2,561,726
Unquoted debt instruments	**2,219,172**	2,203,653	**2,219,067**	2,203,514
Accounts receivable (Note 16)	**195,234**	618,173	**67,997**	109,363
Sales contracts receivable (Note 16)	**465,720**	430,731	**107,547**	112,760
	197,183,673	167,770,130	**187,453,126**	158,280,424
Less allowance for credit losses	**3,179,587**	2,528,569	**3,073,705**	2,290,721
	₱194,004,086	₱165,241,561	**₱184,379,421**	₱155,989,703

As discussed in Note 11, on various dates in 2014, SBS sold, on a without recourse basis, certain corporate and small business loans to the Parent Company in line with the proposed alignment of SBS with the overall strategic direction of the Parent Company. These loans were sold at their carrying values amounting to ₱2.8 billion, which approximate the fair value of the loans on each date of sale.

On various dates in 2013, the Parent Company sold, on a without recourse basis, its entire portfolio of personal loans, home loans/residential mortgages and auto loans to consolidate all consumer financing activities in SBS. The consumer loans were sold at their carrying values amounting to ₱1.8 billion, respectively, which approximate the fair value of the loans on each date of sale.

Receivables from customers consist of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Loans (Note 31)	**₱173,181,478**	₱147,953,070	**₱164,733,245**	₱140,142,997
Customers' liabilities under letters of credit and trust receipts	**11,429,107**	9,908,831	**11,429,108**	9,908,831
Bills purchased (Note 23)	**4,150,997**	2,002,874	**4,149,504**	1,953,295
Credit card receivables	**1,805,834**	1,641,237	**1,028,484**	859,601
Customers' liabilities under acceptances	**290,228**	579,215	**290,228**	579,215
	190,857,644	162,085,227	**181,630,569**	153,443,939
Less unearned discounts and deferred credits	**180,112**	198,874	**127,711**	150,878
	₱190,677,532	₱161,886,353	**₱181,502,858**	₱153,293,061

As of December 31, 2014 and 2013, foreign currency-denominated loans amounting to nil and USD1.1 million (₱48.0 million), respectively for both the Group and the Parent Company, are pledged with the BSP as collateral for bills discounting privileges (see Note 20).

Unquoted debt instruments consist of private securities with EIR ranging from 5.8% to 5.9% and from 2.3% to 5.9% in 2014 and 2013, respectively.

Loans under hedge accounting
As of December 31, 2014 and 2013, the Group's loan receivables under corporate lending identified as hedged items amounted to ₱0.7 billion and ₱0.9 billion, respectively. Gains from fair value changes of the remaining hedged items attributable to the hedged risk amounted to ₱58.3 million and ₱93.3 million as of December 31, 2014 and 2013, respectively (see Note 19).

Regulatory Reporting
Current banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification receivables classified as loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued for regulatory accounting purposes.

As of December 31, 2014 and 2013, NPLs not fully covered by allowance for credit losses are as follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Total NPLs	**₱1,841,122**	₱1,533,823	**₱1,180,934**	₱679,833
Less NPLs classified as loss by the BSP and are fully covered by allowance for credit losses	**645,671**	623,945	**80,439**	55,203
	₱1,195,451	₱909,878	**₱1,100,495**	₱624,630

Restructured receivables of the Group and the Parent Company amounted to ₱289.8 million and ₱241.5 million, respectively, as of December 31, 2014, and ₱214.4 million and ₱133.1 million, respectively, as of December 31, 2013. Interest income on these restructured receivables amounted to ₱17.0 million in 2014, ₱18.6 million in 2013, and ₱26.6 million in 2012 for the Group and ₱9.3 million in 2014, ₱8.93 million in 2013, and ₱15.9 million in 2012 for the Parent Company.

Movements in the allowance for credit losses on loans and receivables follow:

	Consolidated					
	Corporate Lending	Small Business Lending	Consumer Lending	Residential Mortgages	Others	Total
December 31, 2014						
Balance at beginning of year	**₱2,126,149**	**₱70,761**	**₱182,392**	**₱40,880**	**₱108,387**	**₱2,528,569**
Provision for (recovery of) credit losses	**804,292**	**(33,609)**	**128,288**	**4,086**	**(112,992)**	**790,065**
Accounts charged-off	**(241)**	**–**	**(115,902)**	**–**	**(12,595)**	**(128,738)**
Interest accrued on impaired receivables	**(10,908)**	**–**	**–**	**–**	**–**	**(10,908)**
Others	**75,080**	**(4,833)**	**(85,483)**	**(31,701)**	**47,536**	**599**
Balance at end of year	**₱2,994,372**	**₱32,319**	**₱109,295**	**₱13,265**	**₱30,336**	**₱3,179,587**
Individual impairment	**₱2,827,141**	**₱29,571**	**₱6,556**	**₱419**	**₱230**	**₱2,863,917**
Collective impairment	**167,231**	**2,748**	**102,739**	**12,846**	**30,106**	**315,670**
	₱2,994,372	**₱32,319**	**₱109,295**	**₱13,265**	**₱30,336**	**₱3,179,587**
Gross amount of loans individually determined to be impaired	**57,728,694**	**₱62,458**	**₱145,330**	**₱419**	**₱619,517**	**₱58,556,418**
December 31, 2013						
Balance at beginning of year	₱2,210,560	₱66,288	₱126,832	₱38,371	₱93,398	₱2,535,449
Provision for (recovery of) credit losses	(29,245)	4,689	78,193	17,286	57,195	128,118
Accounts charged-off	(19,509)	(4,678)	(109,122)	–	–	(133,309)
Interest accrued on impaired receivables	(9,871)	–	–	–	–	(9,871)
Others	(25,786)	4,462	86,489	(14,777)	(42,206)	8,182
Balance at end of year	₱2,126,149	₱70,761	₱182,392	₱40,880	₱108,387	₱2,528,569
Individual impairment	₱1,819,547	₱57,817	₱80,262	₱8,480	₱156,912	₱2,123,018
Collective impairment	306,602	12,944	102,130	32,400	(48,525)	405,551
	₱2,126,149	₱70,761	₱182,392	₱40,880	₱108,387	₱2,528,569
Gross amount of loans individually determined to be impaired	₱27,534,604	₱438,496	₱454,772	₱26,880	₱276,053	₱28,730,805

	Parent Company					
	Corporate Lending	Small Business Lending	Consumer Lending	Residential Mortgages	Others	Total
December 31, 2014						
Balance at beginning of year	**₱2,084,267**	**₱62,718**	**₱14,782**	**₱–**	**₱128,954**	**₱2,290,721**
Provision for (recovery of) credit losses	**727,847**	**(33,609)**	**47,330**	**4,086**	**(119,508)**	**626,146**
Accounts charged-off and transfers	**–**	**–**	**(58,881)**	**–**	**(12,593)**	**(71,474)**
Interest accrued on impaired receivables	**(10,908)**	**–**	**–**	**–**	**–**	**(10,908)**
Others	**180,252**	**3,210**	**23,106**	**9,179**	**23,473**	**239,220**
Balance at end of year	**₱2,981,458**	**₱32,319**	**₱26,337**	**₱13,265**	**₱20,326**	**₱3,073,705**
Individual impairment	**₱2,827,141**	**₱29,571**	**₱3,886**	**₱419**	**₱230**	**₱2,861,247**
Collective impairment	**154,317**	**2,748**	**22,451**	**12,846**	**20,096**	**212,458**
	₱2,981,458	**₱32,319**	**₱26,337**	**₱13,265**	**₱20,326**	**₱3,073,705**
Gross amount of loans individually determined to be impaired	**₱57,723,708**	**₱62,458**	**₱3,886**	**₱419**	**₱579,450**	**₱58,369,921**
December 31, 2013						
Balance at beginning of year	₱2,201,624	₱66,288	₱47,073	₱38,371	₱87,531	₱2,440,887
Provision for (recovery of) credit losses	(55,650)	(1,675)	(395)	–	68,130	10,410
Accounts charged-off and transfers*	(19,247)	(4,678)	(132,269)	(35,893)	–	(192,087)
Interest accrued on impaired receivables	(9,871)	–	–	–	–	(9,871)
Others	(32,589)	2,783	100,373	(2,478)	(26,707)	41,382
Balance at end of year	₱2,084,267	₱62,718	₱14,782	₱–	₱128,954	₱2,290,721
Individual impairment	₱1,796,449	₱57,818	₱–	₱–	₱127,854	₱1,982,121
Collective impairment	287,818	4,900	14,782	–	1,100	308,600
	₱2,084,267	₱ 62,718	₱14,782	₱–	₱128,954	₱2,290,721
Gross amount of loans individually determined to be impaired	₱27,534,071	₱438,496	₱–	₱–	₱230,232	₱28,202,799

**Includes allowance pertaining to consumer loans sold to SBS totaling ₱104.2 million.*

As of December 31, 2014 and 2013, the fair value of the collateral held relating to the total loan portfolio amounted to ₱102.0 billion and ₱75.6 billion, respectively, for the Group and ₱84.6 billion and ₱68.9 billion, respectively, for the Parent Company. The collateral consists of cash, securities, letters of guarantee and real and personal properties.

The Group and Parent Company took possession of various properties previously held as collateral. As of December 31, 2014 and 2013, the carrying values of such properties based on BSP guidelines amounted to ₱145.8 million and ₱114.8 million, respectively for the Group and ₱136.9 million and ₱32.7 million, respectively, for the Parent Company.

The following table shows the breakdown of receivable from customers as to secured and unsecured and the breakdown of secured receivables from customers as to the type of security as of December 31, 2014 and 2013 (amounts in millions):

	Consolidated				Parent Company			
	2014		2013		**2014**		2013	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Secured by:								
Real estate	**₱24,112**	**12.6**	₱18,457	11.4	**₱19,682**	**10.8**	₱15,785	10.3
Assignment of projects/ company assets/contracts	**8,306**	**4.4**	14,057	8.7	**8,306**	**4.6**	11,894	7.8
Chattel	**4,675**	**2.4**	3,143	1.9	**2,870**	**1.6**	1,743	1.1
Mortgage trust indenture	**2,833**	**1.5**	2,311	1.4	**2,833**	**1.6**	2,311	1.5
Deposit hold-out	**2,326**	**1.2**	1,895	1.2	**2,310**	**1.3**	1,861	1.2
Others	**2,267**	**1.2**	2,103	1.3	**1,432**	**0.7**	1,562	1.0
	44,519	**23.3**	41,966	25.9	**37,433**	**20.6**	35,156	22.9
Unsecured	**146,339**	**76.7**	120,119	74.1	**144,198**	**79.4**	118,288	77.1
	₱190,858	**100.0**	₱162,085	100.0	**₱181,631**	**100.0**	₱153,444	100.0

As of December 31, 2014 and 2013, information on the concentration of credit as to industry follows (amounts in millions):

	Consolidated				Parent Company			
	2014		2013		**2014**		2013	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Wholesale and retail trade	**₱37,029**	**19.4**	₱31,582	19.5	**₱36,998**	**20.4**	₱31,308	20.4
Power, electricity and water distribution	**33,479**	**17.5**	27,607	17.0	**33,479**	**18.4**	27,607	18.0
Real estate	**27,967**	**14.7**	20,138	12.4	**23,663**	**13.0**	17,741	11.6
Manufacturing	**25,647**	**13.4**	25,712	15.9	**25,631**	**14.1**	25,687	16.7
Financial intermediaries	**20,128**	**10.5**	15,351	9.5	**19,500**	**10.7**	15,306	10.0
Transportation, storage and communication	**10,369**	**5.4**	14,732	9.1	**10,367**	**5.7**	14,650	9.5
Others	**36,239**	**19.1**	26,963	16.6	**31,993**	**17.7**	21,145	13.8
	₱190,858	**100.0**	₱162,085	100.0	**₱181,631**	**100.0**	₱153,444	100.0

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Loans	**₱8,347,725**	₱6,957,337	₱5,909,836	**₱7,553,868**	₱6,453,684	₱5,587,055
Customers' liabilities under letters of credit and trust receipts	**413,451**	398,274	348,931	**413,451**	398,274	348,931
Credit card receivables	**384,268**	373,503	397,133	**192,053**	180,234	188,891
Unquoted debt securities	**129,464**	138,826	169,578	**129,425**	138,826	169,578
Sales contracts receivable	**21,090**	23,118	32,344	**8,390**	13,358	23,158
Interest income accrued on impaired loans and receivables	**10,908**	9,872	105,144	**10,908**	9,871	80,161
Bills purchased	**2,006**	1,416	1,853	**1,840**	1,146	1,541
	₱9,308,912	₱7,902,346	₱6,964,819	**₱8,309,935**	₱7,195,393	₱6,399,315

Of the total receivables from customers of the Group and of the Parent Company, 49.5% and 52.1%, respectively, as of December 31, 2014 and 50.5% and 53.4%, respectively, as of December 31, 2013, are subject to periodic interest repricing. Remaining receivables from customers, for the Group and the Parent Company, earn annual fixed interest rates, as follows (in percentages):

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Peso-denominated	**1.50-50.87**	1.50-46.78	1.50-46.78	**1.50-46.78**	1.50-46.78	1.50-46.78
Foreign currency-denominated	**0.76-9.14**	0.76-9.14	0.76-9.25	**0.76-9.14**	0.76-9.14	0.76-9.25

Sales contracts receivable earns interest rates ranging from 8.00% to 16.00% in 2014 and 2013, 7.80% to 16.00% in 2012 for the Group, and 8.00% to 16.00% in 2014, 2013 and 2012 for the Parent Company.

13. Investments in Subsidiaries and a Joint Venture

Investments in Subsidiaries and Non-controlling Interest

This account consists of investments in:

	% of Ownership	Consolidated		Parent Company	
		2014	2013	**2014**	2013
Subsidiaries:					
Cost:					
SBS (Note 4)	99.54			**₱2,576,477**	₱2,576,477
SLC	51.81			**923,244**	923,244
SBCIC	100.00			**500,000**	500,000
SBCC	100.00			**325,000**	325,000
LPII	100.00			**125,000**	125,000
SBFI	100.00			**50,000**	50,000
SPFSIAI	50.00			**6,000**	6,000
				4,505,721	4,505,721
Joint Venture (SBML)					
Cost	60.00	**₱150,058**	₱150,058	**177,728**	177,728
		150,058	150,058	**177,728**	177,728
Accumulated equity in net income					
Balance at beginning of year		**21,771**	3,382	–	–
Share in net income		**25,523**	18,389	–	–
Balance at end of year		**47,294**	21,771	–	–
		197,352	171,829	**177,728**	177,728
		₱197,352	₱171,829	**₱4,683,449**	₱4,683,449

As of December 31, 2014 and 2013, material non-controlling interest relates to SLC with an accumulated balance of ₱1.1 billion and ₱1.0 billion, respectively.

The summarized financial information of SLC are provided below. This information is based on amounts before inter-company eliminations.

Summarized statements of income:

	2014	2013
Interest income	**₱23,345**	₱16,334
Other income	**202,636**	194,143
Total operating income	**225,981**	210,477
Operating expenses	**60,663**	(10,667)
Income before income tax	**165,318**	221,144
Provision for income tax	**48,251**	47,492
Net income	**₱117,067**	₱173,652
Net income attributable to non-controlling interest	**₱56,415**	₱83,683

Summarized statements of financial position:

	2014	2013
Total assets	**₱2,363,066**	₱2,269,445
Total liabilities	**139,473**	162,919
Total equity:		
Attributable to equity holders of parent	**1,487,403**	1,091,391
Non-controlling interest	**1,071,150**	1,015,135

Summarized cash flow information:

	2014	2013
Operating	**₱145,864**	₱138,089
Investing	**(1)**	(5,961)
Net increase in cash and cash equivalents	**₱145,863**	₱132,128

Interest in a Joint Venture

The summarized financial information of the joint venture and reconciliation of the carrying amount of the investment in consolidated financial statements are set out below (in millions):

	2014	2013
Cash and cash equivalents	**₱56**	₱140
Loans and other receivables - current	**479**	175
Non-current assets	**599**	429
Current liabilities	**(342)**	(218)
Non-current liabilities	**(475)**	(258)
Equity	**₱317**	₱268
Proportion of the Group's ownership	**60%**	60%
Carrying amount of the investment	**₱197**	₱172

	2014	2013
Income		
Leasing and other income	**₱65**	₱46
Interest expense	**(11)**	(11)
Net interest income	**54**	35
Other income	**43**	34
Operating expenses	**(34)**	(37)
Income before income tax	**63**	32
Provision for income tax	**(20)**	(2)
Net income	**₱43**	₱30
Group's share for the year	**₱26**	₱18

Depreciation expense amounting to ₱0.4 million in 2014 and ₱0.5 million in 2013 is included under 'Operating expenses'. SBML has no contingent liabilities or capital commitments as of December 31, 2014 and 2013.

SPFSIAI has suspended its operations beginning 2005. On April 2, 2008, its corporate term was shortened to until August 31, 2009. Starting August 31, 2009, assets and liabilities of SPFSIAI were presented at the lower of cost or net realizable value. As of December 31, 2014 and 2013, assets of ₱0.2 million and liabilities of ₱2.1 million are included in the consolidated amounts in the statements of financial position. The liquidation is still pending approval of the SEC as of December 31, 2014 and 2013.

14. Property and Equipment

The composition of and movements in the Group's and Parent Company's property and equipment follow:

	Consolidated					
	Land	Building and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
December 31, 2014						
Cost						
Balance at beginning of year	**₱419,190**	**₱1,935,014**	**₱1,255,072**	**₱267,041**	**₱326,552**	**₱4,202,869**
Additions	**7,957**	**308,162**	**391,406**	**135,775**	**176,136**	**1,019,436**
Disposals	**(13,530)**	**(321,861)**	**(96,783)**	**(49,162)**	**(6,413)**	**(487,749)**
Amortization of leasehold improvements	**–**	**–**	**–**	**–**	**(107,216)**	**(107,216)**
Balance at end of year	**413,617**	**1,921,315**	**1,549,695**	**353,654**	**389,059**	**4,627,340**
Accumulated Depreciation						
Balance at beginning of year	**–**	**1,246,490**	**809,509**	**116,823**	**–**	**2,172,822**
Depreciation	**–**	**134,910**	**191,726**	**57,699**	**–**	**384,335**
Disposals	**–**	**(293,003)**	**(62,180)**	**(35,280)**	**–**	**(390,463)**
Balance at end of year	**–**	**1,088,397**	**939,055**	**139,242**	**–**	**2,166,694**
Allowance for Impairment Loss						
Balance at beginning of year	**55,680**	**86**	**–**	**–**	**–**	**55,766**
Provisions (recovery)	**(16,166)**	**2,937**	**–**	**–**	**–**	**(13,229)**
Disposals	**(3,139)**	**(1,910)**	**–**	**–**	**–**	**(5,049)**
Balance at end of year	**36,375**	**1,113**	**–**	**–**	**–**	**37,488**
Net Book Value at End of Year	**₱377,242**	**₱831,805**	**₱610,640**	**₱214,412**	**₱389,059**	**₱2,423,158**
December 31, 2013						
Cost						
Balance at beginning of year	₱425,721	₱1,626,806	₱1,027,846	₱224,746	₱229,829	₱3,534,948
Additions	–	327,887	429,966	106,988	172,009	1,036,850
Disposals	(6,531)	(19,679)	(202,740)	(64,693)	(1,256)	(294,899)
Amortization of leasehold improvements	–	–	–	–	(74,030)	(74,030)
Balance at end of year	419,190	1,935,014	1,255,072	267,041	326,552	4,202,869
Accumulated Depreciation						
Balance at beginning of year	–	1,157,517	675,735	96,845	–	1,930,097
Depreciation	–	97,433	164,916	48,418	–	310,767
Disposals	–	(8,460)	(31,142)	(28,440)	–	(68,042)
Balance at end of year	–	1,246,490	809,509	116,823	–	2,172,822
Allowance for Impairment Loss						
Balance at beginning of year	60,155	–	–	–	–	60,155
Provisions (recovery)	(2,690)	2,606	–	–	–	(84)
Disposals	(1,785)	(2,520)	–	–	–	(4,305)
Balance at end of year	55,680	86	–	–	–	55,766
Net Book Value at End of Year	₱363,510	₱688,438	₱445,563	₱150,218	₱326,552	₱1,974,281

	Parent Company					
	Land	**Building and Improvements**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
December 31, 2014						
Cost						
Balance at beginning of year	**₱371,730**	**₱1,911,356**	**₱1,103,982**	**₱233,376**	**₱259,916**	**₱3,880,360**
Additions	**7,928**	**306,753**	**353,490**	**68,573**	**151,539**	**888,283**
Disposals	–	**(309,162)**	**(78,620)**	**(39,400)**	**(4,203)**	**(431,385)**
Amortization of leasehold improvements	–	–	–	–	**(83,393)**	**(83,393)**
Balance at end of year	**379,658**	**1,908,947**	**1,378,852**	**262,549**	**323,859**	**4,253,865**
Accumulated Depreciation						
Balance at beginning of year	–	**1,232,149**	**726,174**	**100,814**	–	**2,059,137**
Depreciation	–	**126,416**	**164,028**	**47,942**	–	**338,386**
Disposals	–	**(282,083)**	**(47,014)**	**(29,339)**	–	**(358,436)**
Balance at end of year	–	**1,076,482**	**843,188**	**119,417**	–	**2,039,087**
Allowance for Impairment Loss						
Balance at beginning of year	**57,465**	**2,606**	–	–	–	**60,071**
Recovery	–	**(937)**	–	–	–	**(937)**
Balance at end of year	**57,465**	**1,669**	–	–	–	**59,134**
Net Book Value at End of Year	**₱322,193**	**₱830,796**	**₱535,664**	**₱143,132**	**₱323,859**	**₱2,155,644**
December 31, 2013						
Cost						
Balance at beginning of year	₱371,730	₱1,593,692	₱899,596	₱208,098	₱186,038	₱3,259,154
Additions	–	327,022	234,787	69,884	122,088	753,781
Disposals	–	(9,358)	(30,401)	(44,606)	–	(84,365)
Amortization of leasehold improvements	–	–	–	–	(48,210)	(48,210)
Balance at end of year	371,730	1,911,356	1,103,982	233,376	259,916	3,880,360
Accumulated Depreciation						
Balance at beginning of year	–	1,144,915	621,792	96,419	–	1,863,126
Depreciation	–	87,234	133,530	40,544	–	261,308
Disposals	–	–	(29,148)	(36,149)	–	(65,297)
Balance at end of year	–	1,232,149	726,174	100,814	–	2,059,137
Allowance for Impairment Loss						
Balance at beginning of year	60,155	–	–	–	–	60,155
Provisions (recovery)	(2,690)	2,606	–	–	–	(84)
Balance at end of year	57,465	2,606	–	–	–	60,071
Net Book Value at End of Year	₱314,265	₱676,601	₱377,808	₱132,562	₱259,916	₱1,761,152

As of December 31, 2014 and 2013, the cost of fully depreciated property and equipment still in use amounted to ₱1.4 billion and ₱929.1 million, respectively, for the Group and ₱1.2 billion and ₱745.5 million, respectively, for the Parent Company.

The details of depreciation and amortization recognized in the statements of income follow:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Property and equipment	**₱384,335**	₱310,767	₱259,461	**₱338,386**	₱261,308	₱212,690
Leasehold improvements	**107,216**	74,030	46,318	**83,393**	48,210	29,953
Investment properties (Note 15)	**24,794**	23,568	29,786	**2,358**	2,808	18,300
Other properties acquired (Note 16)	**6,280**	20,369	24,836	–	16,919	20,067
Total	**₱522,625**	₱428,734	₱360,401	**₱424,137**	₱329,245	₱281,010

15. **Investment Properties**

The composition of and movements in the Group and Parent Company's investment properties follow:

	Consolidated		
	Land	**Building and Improvements**	**Total**
December 31, 2014			
Cost			
Balance at beginning of year	**₱1,729,556**	**₱446,607**	**₱2,176,163**
Additions	**30,392**	**18,682**	**49,074**
Disposals	**(105,099)**	**(132,465)**	**(237,564)**
Balance at end of year	**1,654,849**	**332,824**	**1,987,673**
Accumulated Depreciation			
Balance at beginning of year	**–**	**222,067**	**222,067**
Depreciation	**–**	**24,794**	**24,794**
Disposals	**–**	**(119,786)**	**(119,786)**
Balance at end of year	**–**	**127,075**	**127,075**
Allowance for Impairment Loss			
Balance at beginning of year	**112,070**	**5,936**	**118,006**
Recovery	**(21,429)**	**(1,654)**	**(23,083)**
Disposals	**(14,649)**	**(562)**	**(15,211)**
Balance at end of year	**75,992**	**3,720**	**79,712**
Net Book Value at End of Year	**₱1,578,857**	**₱202,029**	**₱1,780,886**
December 31, 2013			
Cost			
Balance at beginning of year	₱1,704,090	₱536,763	₱2,240,853
Additions	141,275	72,968	214,243
Disposals	(115,809)	(163,124)	(278,933)
Balance at end of year	1,729,556	446,607	2,176,163
Accumulated Depreciation			
Balance at beginning of year	–	235,628	235,628
Depreciation	–	23,568	23,568
Disposals	–	(37,129)	(37,129)
Balance at end of year	–	222,067	222,067
Allowance for Impairment Loss			
Balance at beginning of year	205,765	11,237	217,002
Provision for (recovery of) impairment loss	(78,818)	10,693	(68,125)
Disposals	(14,877)	(15,994)	(30,871)
Balance at end of year	112,070	5,936	118,006
Net Book Value at End of Year	₱1,617,486	₱218,604	₱1,836,090

	Parent Company		
	Land	**Building and Improvements**	**Total**
December 31, 2014			
Cost			
Balance at beginning of year	**₱452,696**	**₱188,268**	**₱640,964**
Additions	**12,151**	**1,381**	**13,532**
Disposals	**(75,435)**	**(125,118)**	**(200,553)**
Balance at end of year	**389,412**	**64,531**	**453,943**

(Forward)

	Parent Company		
	Land	Building and Improvements	Total
Accumulated Depreciation			
Balance at beginning of year	**₱–**	**₱149,670**	**₱149,670**
Depreciation	**–**	**2,358**	**2,358**
Disposals	**–**	**(100,609)**	**(100,609)**
Balance at end of year	**–**	**51,419**	**51,419**
Allowance for Impairment Loss			
Balance at beginning of year	**102,567**	**14,268**	**116,835**
Recovery	**(10,582)**	**(1,790)**	**(12,372)**
Disposals	**(15,675)**	**(9,919)**	**(25,594)**
Balance at end of year	**76,310**	**2,559**	**78,869**
Net Book Value at End of Year	**₱313,102**	**₱10,553**	**₱323,655**
December 31, 2013			
Cost			
Balance at beginning of year	₱503,032	₱186,290	₱689,322
Additions	58,528	14,889	73,417
Disposals	(108,864)	(12,911)	(121,775)
Balance at end of year	452,696	188,268	640,964
Accumulated Depreciation			
Balance at beginning of year	–	149,723	149,723
Depreciation	–	2,808	2,808
Disposals	–	(2,861)	(2,861)
Balance at end of year	–	149,670	149,670
Allowance for Impairment Loss			
Balance at beginning of year	131,627	11,319	142,946
Provision for (recovery of) impairment loss	(13,923)	5,349	(8,574)
Disposals	(15,137)	(2,400)	(17,537)
Balance at end of year	102,567	14,268	116,835
Net Book Value at End of Year	₱350,129	₱24,330	₱374,459

Investment properties include real estate properties acquired in settlement of loans and receivables. The difference between the fair value of the asset upon foreclosure and the carrying value of the loan is recognized under ‘Miscellaneous income’ (see Note 30). The Group is exerting continuing efforts to dispose these properties.

The fair values of investment properties are disclosed in Note 6.

As of December 31, 2014 and 2013, the carrying value of investment properties still subject to redemption amounted to ₱39.7 million and ₱105.3 million, respectively, for the Group and ₱10.4 million and ₱17.7 million, respectively, for the Parent Company.

In 2014, 2013 and 2012, Rental income (included under ‘Rent income’ in the statements of income) on investment properties, which are leased out under operating leases, amounted to ₱104.3 million, ₱107.0 million, and ₱61.7 million, respectively, for the Group and ₱4.0 million, ₱10.8 million and ₱10.3 million, respectively, for the Parent Company (see Note 32). In 2014, 2013 and 2012, direct operating expenses, consisting of depreciation and amortization and repairs and maintenance (included under ‘Occupancy costs’ in the statements of income) pertaining to investment properties amounted to ₱15.7 million, ₱26.5 million and ₱29.8 million, respectively, for the Group and ₱5.9 million ₱13.4 million, and ₱18.3 million, respectively, for the Parent Company.

Provision for (recovery of) impairment losses on non-financial assets in the statements of income are as follows:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Property and equipment (Note 14)	**(₱13,229)**	(₱84)	(₱74)	**(₱937)**	(₱84)	(₱74)
Investment properties	**(23,083)**	(68,125)	4,360	**(12,372)**	(8,574)	14,169
Other assets (Note 16)*	**369**	(10,635)	23,381	**–**	–	–
	(₱35,943)	(₱78,844)	₱27,667	**(₱13,309)**	(₱8,658)	₱14,095

**Other assets include other properties acquired and miscellaneous assets.*

16. Intangible and Other Assets

Intangible assets consist of:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Branch licenses	**₱1,360,000**	₱1,140,000	**₱1,000,000**	₱780,000
Software costs	**131,410**	116,031	**88,058**	72,519
Exchange trading right	**8,500**	8,500	**–**	–
	₱1,499,910	₱1,264,531	**₱1,088,058**	₱852,519

Branch licenses of the Group amounting to ₱1.4 billion represents the following:

a. 11 branch licenses acquired by the Parent Company from the BSP in 2014 amounting to ₱220.0 million;
b. 24 branch licenses acquired by the Parent Company from the BSP in 2013 amounting ₱480.0 million;
c. 15 branch licenses acquired by the Parent Company from the BSP in 2012 amounting to ₱300.0 million; and
d. 24 branch licenses acquired by the Parent Company from the business combination on February 1, 2012 amounting to ₱360.0 million.

Movements in software costs follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Cost				
Balance at beginning of year	**₱506,487**	₱477,267	**₱348,866**	₱324,994
Additions	**114,378**	29,937	**94,011**	23,872
Disposals	**(42,352)**	(717)	**(41,467)**	–
Balance at end of year	**578,513**	506,487	**401,410**	348,866
Accumulated Amortization				
Balance at beginning of year	**390,456**	351,014	**276,347**	249,400
Amortization	**56,647**	39,442	**37,005**	26,947
Balance at end of year	**447,103**	390,456	**313,352**	276,347
Net Book Value at End of Year	**₱131,410**	₱116,031	**₱88,058**	₱72,519

As of December 31, 2014 and 2013, the latest transacted price of SBEI's exchange trading right amounted to ₱8.5 million.

Other assets consist of:

	Consolidated		Parent Company	
	December 31		December 31	
	2014	2013	**2014**	2013
Cash collateral deposits	**₱898,584**	₱858,568	**₱898,584**	₱858,568
Land held for sale	**336,926**	445,297	**–**	–
Prepaid expenses	**181,284**	221,843	**133,698**	189,644
Rental and security deposits	**214,398**	182,837	**176,103**	115,983
Returned checks and other cash items	**345,627**	233,670	**335,147**	230,359
Documentary stamps	**88,097**	101,852	**79,219**	95,191
Pension asset (Notes 28 and 31)	**117,820**	170,314	**30,653**	105,123
Other properties acquired - net	**30,020**	19,290	**–**	166
Miscellaneous	**101,178**	88,628	**68,197**	54,079
	2,313,934	2,322,299	**1,721,601**	1,649,113
Allowance for impairment losses				
Balance at beginning of year	**12,898**	23,533	**–**	–
Provision for (recovery of) impairment losses	**252**	(10,606)	**–**	–
Disposals and others	**–**	(29)	**–**	–
Balance at end of year	**13,150**	12,898	**–**	–
	₱2,300,784	₱2,309,401	**₱1,721,601**	₱1,649,113

Cash collateral deposits represent the Parent Company's restricted deposits for its treasury transactions such as interest rate swaps and SSURA. The fair value of these deposits approximates their carrying amount. The Group recognized provision for (recovery of) impairment loss on other assets amounting to ₱0.3 million and (₱10.6 million) in 2014 and 2013, respectively.

Land held for sale pertains to properties contributed by SLC to a joint operation with RLC for which development commenced in August 2011.

Interest in a Joint Operation
On June 29, 2009, SLC entered into a memorandum of agreement with RLC for the development of SLC's land located at the corner of Valero and Rufino streets, Makati City (previously being rented out as parking space) into residential condominium units. The parties agreed that SLC will contribute the land while RLC will contribute its expertise as a developer and contribute financial capital by way of funding the development and all related expenses of the proposed residential condominium buildings and related site development and improvements. SLC is entitled to 30% of the gross floor area plus share of parking lots. As the exclusive marketing manager of the project, RLC is entitled to a marketing and management fee of 11% of the contract price.

The project will consist of two residential condominium buildings - Tower 1 and Tower 2. The construction of Tower 1 commenced in August 2011 and was completed in December 2014. As of December 31, 2014 and 2013, pre-selling sales level of Tower 1 reached 92.0% and 73.0%, respectively, while the pre-selling sales level of Tower 2 reached 49.0% and 35.0%, respectively. The construction of Tower 2 commenced in August 2012. The construction of Tower 2 will be completed on or before January 2016, which is within a period of 42 months from the start of construction. Tower 2 was launched in January 2012.

As of December 31, 2014 and 2013, pre-selling of Tower 1 amounted to ₱434.0 million and ₱344.0 million, respectively, of which ₱189.5 million and ₱112.5 million, respectively, have already been collected by RLC on behalf of SLC. For Tower 2, pre-selling as of December 31, 2014 and 2013 amounted to ₱247.0 million and ₱196.0 million, respectively, of which ₱84.2 million and ₱33.5 million, respectively, have already been collected by RLC on behalf of SLC. As a result of the commencement of development for the projects, SLC recognized

gain from sale of condominium units (included under ‘Profit from assets sold/exchanged’ in the statements of income) amounting to ₱62.6 million in 2014 and ₱50.9 million in 2013.

As of December 31, 2014 and 2013, sales contracts receivable (included under ‘Loans and receivables’ in the statements of financial position) recognized by SLC for units sold amounted to ₱295.3 million and ₱232.3 million, respectively.

As of December 31, 2014 and 2013, receivable from RLC (included as accounts receivable under Loans and receivables in the statements of financial position) amounted to ₱71.4 million and ₱22.2 million, respectively, net of marketing expenses (included under ‘Miscellaneous expense’ in the statements of income) amounting to ₱14.9 million and ₱8.2 million and, respectively.

Other properties acquired represent chattel mortgages foreclosed from loan borrowers. Gain or loss upon foreclosure is included under Profit from asset sold/exchanged in the statements of income.

Movements in the other properties acquired by the Group and Parent Company follow:

	Consolidated		Parent Company	
	December 31		December 31	
	2014	2013	**2014**	2013
Cost				
Balance at beginning of year	**₱70,983**	₱83,309	**₱54,928**	₱64,364
Additions	**31,222**	21,690	**–**	6,435
Disposals	**(67,914)**	(34,016)	**(54,928)**	(15,871)
Balance at end of year	**34,291**	70,983	**–**	54,928
Accumulated Depreciation				
Balance at beginning of year	**51,524**	41,474	**54,762**	41,479
Depreciation	**6,280**	20,369	**–**	16,919
Disposals	**(53,663)**	(10,319)	**(54,762)**	(3,636)
Balance at end of year	**4,141**	51,524	**–**	54,762
Accumulated Impairment Loss				
Balance at beginning of year	**169**	326	**–**	215
Provision for (recovery of) impairment loss	**117**	(29)	**–**	–
Disposal	**(156)**	(128)	**–**	(215)
Balance at end of year	**130**	169	**–**	–
Net Book Value at End of Year	**₱30,020**	₱19,290	**₱–**	₱166

17. Deposit Liabilities

On March 27, 2014, the BSP, through BSP Circular 830, approved the 1-percentage-point increase in reserve requirements effective April 11, 2014, thereby increasing the reserve requirements on non-FCDU deposit liabilities of the Parent Company and SBS from 18.00% to 19.00% and from 6.00% to 7.00%, respectively. As mandated by the Circular, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest. As of December 31, 2014 and 2013, the Group was in compliance with such regulations.

As of December 31, 2014 and 2013, the Group has set aside due from BSP as reserves amounting to ₱35.44 billion and ₱28.13 billion, respectively, of which ₱34.67 billion and ₱27.68 billion, respectively, pertained to the Parent Company.

<u>Long Term Negotiable Certificate of Deposits due 2017 (LTNCD Series 1)</u>
On February 17, 2012, the Parent Company issued 5.50% fixed coupon rate (EIR of 5.62%) unsecured LTNCD at par value of ₱5.0 billion. LTNCD Series 1 matures on February 17, 2019. As of December 31, 2014 and 2013, the fair value of LTNCD Series 1 amounted to ₱5.6 billion and ₱5.7 billion, respectively.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on November 24, 2011.

<u>Long Term Negotiable Certificate of Deposits due 2017 (LTNCD Series 2)</u>
On August 15, 2012, the Parent Company issued 5.50% fixed coupon rate (EIR of 5.62%) unsecured LTNCD at par value of ₱5.0 billion. LTNCD Series 2 matures on August 16, 2019. As of December 31, 2014 and 2013, the fair value of LTNCD Series 2 amounted to ₱5.6 billion and ₱5.7 billion, respectively.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on April 26, 2012.

The movement of unamortized debt issue costs follows:

	2014	2013
Beginning balance	**₱56,887**	₱65,691
Amortization	**(9,317)**	(8,804)
Balance at end of year	**₱47,570**	₱56,887

Interest expense on deposit liabilities consists of:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Demand	**₱140,807**	₱122,439	₱110,110	**₱134,931**	₱119,970	₱109,036
Savings	**971,443**	756,278	850,983	**968,902**	753,735	852,879
Time	**868,548**	758,525	600,191	**726,377**	639,174	479,296
LTNCD	**559,317**	558,804	349,051	**559,318**	558,804	349,051
	₱2,540,115	₱2,196,046	₱1,910,335	**₱2,389,528**	₱2,071,683	₱1,790,262

Ranges of annual fixed interest on deposit liabilities follow (in percentages):

	2014	2013	2012
Peso-denominated	**0.10-2.00**	0.25-4.50	0.25-4.50
Foreign currency-denominated	**0.13-2.13**	0.25-3.55	0.25-3.55

18. Financial Liabilities at Fair Value through Profit or Loss

This account consists of:

	2014	2013
Derivative liabilities (Note 6):		
Interest rate swaps	**₱460,600**	₱727,726
Currency forwards	**119,206**	28,634
Cross-currency swaps	**239**	–
Warrants	**2,822**	–
Currency options	**–**	28,416
	₱582,867	₱784,776

Interest expense on derivative instruments consists of:

	2014	2013	2012
Interest rate swaps	**₱787,569**	₱882,140	₱578,943
Cross-currency swaps	**1,706**	115,686	126,932
Range accrual note	**–**	–	19,651
	₱789,275	₱997,826	₱725,526

19. Derivative Liabilities Designated as Hedges

The Parent Company uses interest rate swaps to hedge certain receivables from customers from fair value changes due to fluctuations in benchmark interest rates (see Note 12). The hedges have been assessed as perfectly effective as the critical terms of the swaps match those of the hedged receivables.

As of December 31, 2014 and 2013, the aggregate negative fair value of the interest rate swaps designated as hedging instruments amounted to ₱58.3 million and ₱93.3 million, respectively, with total notional amounts of ₱0.7 billion and ₱0.9 billion, respectively.
In 2014, 2013, and 2012, net interest expense on derivative liabilities designated as hedges amounted to ₱47.9 million, ₱96.9 million, and ₱83.4 million, respectively.

20. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Consolidated		Parent Company	
	2014	2013	2014	2013
SSURA	**₱41,723,917**	₱48,059,930	**₱41,723,917**	₱48,059,930
Local banks	**33,372,293**	31,582,539	**33,254,293**	31,582,539
Foreign banks	**4,313,413**	10,278,711	**4,313,413**	10,278,711
BSP - rediscounting (Note 12)	**–**	48,016	**–**	47,969
Local government banks with relending facilities	**191,911**	143,750	**191,911**	143,750
	₱79,601,534	₱90,112,946	**₱79,483,534**	₱90,112,899

The following are the carrying values of the investment securities pledged and transferred under SSURA transactions of the Group:

	December 31, 2014		December 31, 2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Investment securities at amortized cost (Note 11)				
Treasury bonds	**₱45,680,287**	**₱47,491,206**	₱55,656,994	₱55,551,075
Private bonds	**7,463,208**	**7,321,727**	6,997,187	6,427,175
	₱53,143,495	**₱54,812,933**	₱62,654,181	₱61,978,250

For the years ended December 31, 2014, 2013 and 2012, interest expense on subordinated notes, bills payable and SSURA and other borrowings in the statement of income consist of the following:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Bills payable and SSURA	**₱601,063**	₱406,169	₱490,998	**₱597,131**	₱401,374	₱490,177
Subordinated notes (Note 21)	**254,809**	250,298	265,234	**254,809**	250,298	265,234
	₱855,872	₱656,467	₱756,232	**₱851,940**	₱651,672	₱755,411

Annual fixed interest rate ranges on the Group's and the Parent Company's interbank borrowings and rediscounting availments follow (in percentages).

	2014	2013	2012
Interbank borrowings:			
Peso-denominated	**2.00-3.19**	1.50-2.00	4.00-4.50
Foreign currency-denominated	**0.30-1.50**	0.19-2.15	0.17-1.86
Rediscounting availments:			
Peso-denominated	**2.00-3.13**	3.50-5.75	3.50-4.50
Foreign currency-denominated	**1.10**	0.18-2.30	0.16-0.30

21. Subordinated Note

Tier 2 Unsecured Subordinated Notes due 2024

On July 11, 2014, the Parent Company issued ₱10.0 billion Unsecured Subordinated Notes (2024 Sub Notes) due on July 11, 2024 qualifying as Tier 2 Capital. The Notes will initially bear interest at the rate of 5.375% per annum (EIR of 5.464%) from and including July 11, 2014 to but excluding July 11, 2019. Unless the 2024 Sub Notes are redeemed on July 12, 2019, the initial interest rate will be reset at the equivalent of the five-year PDST-R1 plus a spread of 1.575% per annum, and such interest will be payable commencing on July 12, 2019 up to and including July 11, 2024. The interest of the 2024 Sub Notes for the entire term will be payable quarterly in arrears on the 11th of January, April, July, and October of each year, commencing on October 11, 2014.

The 2024 Sub Notes also contain a tax redemption option and a regulatory redemption option which will allow the Parent Company to redeem no less than all of the outstanding 2024 Sub Notes, at an amount equal to 100% of the face value of the 2024 Sub Notes plus accrued interest at the interest rate relating to the current interest period up to but excluding the date of such

redemption, upon the happening of certain events that are triggered by changes in laws and regulations.

The 2024 Sub Notes also have a loss absorption feature which means that the notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions, when the Parent Company is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or the inability of the Parent Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. Upon the occurrence of a Non-Viability Event, the Parent Company shall write-down the principal amount of the notes to the extent required by the BSP, which could go down to as low as zero. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a: (i) a Write-Down of the notes and other capital instruments of the Parent Company is necessary because, without such Write-Down, the Parent Company would become non-viable, (ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Parent Company would become non-viable, or (iii) Write-Down of the notes and other capital instruments of the Parent Company is necessary because, as a result of the closure of the Parent Company, it has become non-viable. A Non-Viability Write-Down shall have the following effects: (a) it shall reduce the claim on the notes in liquidation; (b) reduce the amount re-paid when a call or redemption is properly exercised; and (c) partially or fully reduce the interest payments on the notes.

The issuance of the 2024 Sub Notes under the terms approved by the BOD was approved by the BSP on May 21, 2014, subject to the Parent Company's compliance with certain conditions.

Tier 2 Unsecured Subordinated Notes due 2018
On December 10, 2008, the Parent Company issued 8.625% coupon rate (EIR of 8.77%) Lower Tier 2 Fixed Rate Subordinated Notes (2018 Sub Notes) with a par value of ₱3.0 billion maturing in 10 years but callable with step-up in interest rate after 5 years from issue date.

In September and October 2013, the Parent Company's BOD and the BSP, respectively, approved the exercise of the call option on the 2018 Sub Notes on December 11, 2013. Up until the redemption of the 2018 Sub Notes on December 11, 2013, the Parent Company was in compliance with the terms and conditions upon which the notes have been issued.

The movements in unamortized discount follow:

	2014	2013
Balance at beginning of year	**₱–**	₱6,641
Discount on issuance of 2024 Sub Notes	**68,992**	–
Amortization	**(2,483)**	(6,641)
Balance at end of year	**₱66,509**	₱–

22. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	December 31		December 31	
	2014	2013	**2014**	2013
Accrued interest payable (Note 31)	**₱941,691**	₱567,558	**₱922,461**	₱553,273
Accrued other expenses payable	**864,367**	855,614	**726,857**	719,069
Accrued other taxes and licenses payable	**312,744**	88,285	**266,189**	84,727
Pension liability (Note 28)	**20,483**	16,897	**–**	–
	₱2,139,285	₱1,528,354	**₱1,915,507**	₱1,357,069

Accrued other expenses payable includes accrual for various operating expenses such as payroll, repairs and maintenance, utilities, rental, and contractual services. This also includes estimated provision for probable losses arising from various legal cases of the Group (see Note 33).

23. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	December 31		December 31	
	2014	2013	**2014**	2013
Bills purchased - contra (Note 12)	**₱3,904,363**	₱1,995,482	**₱3,902,870**	₱1,953,295
Accounts payable (Note 31)	**1,753,336**	1,579,741	**1,507,453**	1,276,597
Payable to brokers	**821,523**	601,304	**–**	–
Other deferred credits	**256,214**	177,291	**237,675**	168,760
Withholding taxes payable	**100,997**	145,161	**85,201**	135,070
Subscription payable	**30,000**	30,000	**273,750**	273,750
Dividends payable	**18,646**	17,682	**18,646**	17,682
Due to the Treasurer of the Philippines	**16,438**	19,011	**15,838**	18,411
Deferred tax liability (Note 27)	**–**	16,179	**–**	–
Deposits for keys of safety deposit boxes	**5,747**	5,384	**5,594**	5,384
Miscellaneous	**674,576**	151,669	**573,115**	71,470
	₱7,581,840	₱4,738,904	**₱6,620,142**	₱3,920,419

Miscellaneous liabilities mainly consist of the Parent Company's Social Security System pension for the Groups' depositors amounting to ₱75.2 million and ₱61.3 million as of December 31, 2014 and 2013, respectively, and items in process for clearing amounting to ₱272.8 million and ₱3.3 million as of December 31, 2014 and 2013, respectively, which were subsequently reversed.

24. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled (amounts in millions):

	Consolidated			Parent Company		
	Less Than One Year	Over One Year	Total	Less Than One Year	Over One Year	Total
December 31, 2014						
Financial Assets						
Cash and other cash items	₱5,620	₱–	₱5,620	₱5,307	₱–	₱5,307
Due from BSP	35,843	–	35,843	34,671	–	34,671
Due from other banks	39,129	–	39,129	39,047	–	39,047
Financial assets at FVTPL:						
HFT investments	10,151	–	10,151	10,149	–	10,149
Derivative assets	756	–	756	756	–	756
Others	–	15	15	–	15	15
Total financial assets at FVTPL	10,907	15	10,922	10,905	15	10,920
Financial assets at FVTOCI	95	56	151	71	–	71
Investment securities at amortized cost	574	100,911	101,485	123	100,910	101,033
Loans and receivables - at gross	109,277	88,087	197,364	106,253	81,327	187,580
Other assets	899	214	1,113	899	176	1,075
Total financial assets	202,344	189,283	391,627	197,276	182,428	379,704
Nonfinancial Assets						
Investments in subsidiaries and a joint venture	–	197	197	–	4,683	4,683
Property and equipment	–	2,423	2,423	–	2,156	2,156
Investment properties	–	1,781	1,781	–	324	324
Deferred tax assets	–	1,000	1,000	–	948	948
Goodwill	–	842	842	–	–	–
Intangible assets	–	1,500	1,500	–	1,088	1,088
Other assets	151	1,037	1,188	79	568	647
Total nonfinancial assets	151	8,780	8,931	79	9,767	9,846
	₱202,495	₱198,063	400,558	₱197,355	₱192,195	389,550
Less: Allowance for impairment and credit losses			3,180			3,074
Unearned discounts and deferred credits			180			128
Total Assets			₱397,198			₱386,348
Financial Liabilities						
Deposit liabilities	₱232,657	₱14,156	₱246,813	₱228,995	₱10,287	₱239,282
Financial liabilities at FVTPL	583	–	583	583	–	583
Derivative liabilities designated as hedges	58	–	58	58	–	58
Bills payable and SSURA	74,301	5,301	79,602	74,183	5,301	79,484
Acceptances payable	11	283	294	11	283	294
Margin deposits and cash letters of credit	–	33	33	–	33	33
Manager's and certified checks outstanding	2,157	–	2,157	2,109	–	2,109
Subordinated note	–	9,933	9,933	–	9,933	9,933
Accrued interest, taxes and other expenses	1,028	737	1,765	964	685	1,649
Other liabilities	6,389	102	6,491	5,429	300	5,729
Total financial liabilities	317,184	30,545	347,729	312,332	26,822	339,154
Nonfinancial Liabilities						
Income tax payable	47	–	47	–	–	–
Accrued interest, taxes and other expenses	354	20	374	267	–	267
Other liabilities	803	288	1,091	657	234	891
Total nonfinancial liabilities	1,204	308	1,512	924	234	1,158
Total Liabilities	₱318,388	₱30,853	₱349,241	₱313,256	₱27,056	₱340,312

	Consolidated			Parent Company		
	Less Than One Year	Over One Year	Total	Less Than One Year	Over One Year	Total
December 31, 2013						
Financial Assets						
Cash and other cash items	₱4,429	₱–	₱4,429	₱4,197	₱–	₱4,197
Due from BSP	45,584	–	45,584	45,129	–	45,129
Due from other banks	28,739	–	28,739	28,678	–	28,678
Interbank loans receivable and SPURA with the BSP	12,120	–	12,120	13,090	–	13,090
Financial assets at FVTPL:						
HFT investments	2,362	–	2,362	2,292	–	2,292
Derivative assets	1,251	–	1,251	1,251	–	1,251
Others	–	15	15	–	15	15
Total financial assets at FVTPL	3,613	15	3,628	3,543	15	3,558
Financial assets at FVTOCI	124	20	144	64	–	64
Investment securities at amortized cost	1,046	77,468	78,514	1,046	77,013	78,059
Loans and receivables - at gross	90,484	77,485	167,969	88,474	69,957	158,431
Other assets	859	65	924	859	–	859
Total financial assets	186,998	155,053	342,051	185,080	146,985	332,065
Nonfinancial Assets						
Investments in subsidiaries and a joint venture	–	172	172	–	4,683	4,683
Property and equipment	–	1,975	1,975	–	1,761	1,761
Investment properties	–	1,836	1,836	–	374	374
Deferred tax assets	–	744	744	–	665	665
Goodwill	–	842	842	–	–	–
Intangible assets	–	1,264	1,264	–	853	853
Other assets	219	1,166	1,385	190	601	791
Total nonfinancial assets	219	7,999	8,218	190	8,937	9,127
	₱187,217	₱163,052	350,269	₱185,270	₱155,922	341,192
Less: Allowance for impairment and credit losses			2,528			2,291
Unearned discounts and deferred credits			199			151
Total Assets			₱347,542			₱338,750
Financial Liabilities						
Deposit liabilities	₱123,407	₱82,544	₱205,951	₱121,044	₱78,929	₱199,973
Financial liabilities at FVTPL	785	–	785	785	–	785
Derivative liabilities designated as hedges	93	–	93	93	–	93
Bills payable and SSURA	85,555	4,558	90,113	85,555	4,558	90,113
Acceptances payable	579	–	579	579	–	579
Margin deposits and cash letters of credit	6	–	6	6	–	6
Manager's and certified checks outstanding	1,932	–	1,932	1,795	–	1,795
Subordinated note	–	–	–	–	–	–
Accrued interest, taxes and other expenses	706	734	1,440	573	699	1,272
Other liabilities	3,918	318	4,236	3,102	274	3,376
Total financial liabilities	216,981	88,154	305,135	213,532	84,460	297,992
Nonfinancial Liabilities						
Income tax payable	41	–	41	–	–	–
Accrued interest, taxes and other expenses	71	17	88	85	–	85
Other liabilities	300	203	503	376	169	545
Total nonfinancial liabilities	412	220	632	461	169	630
Total Liabilities	₱217,393	₱88,374	₱305,767	₱213,993	₱84,629	₱298,622

25. **Equity**

As of December 31, 2014 and 2013, the Parent Company's capital stock consists of:

	Shares*		Amount	
	2014	2013	**2014**	2013
Common stock - ₱10 par value				
Authorized	**1,000,000,000**	1,000,000,000	**₱10,000,000**	₱10,000,000
Issued and outstanding				
Balance at beginning of year	**502,358,513**	502,358,513	**5,023,585**	5,023,585
20% stock dividend	**100,472,596**	–	**1,004,726**	–
	602,831,109	502,358,513	**6,028,311**	5,023,585
Preferred stock- ₱0.10 par value				
Authorized	**1,000,000,000**	–	**100,000**	–
Issued and outstanding				
Balance at beginning of year	–	–	–	–
Issuance of preferred shares	**602,831,109**	–	**60,283**	–
	602,831,109	–	**60,283**	–
	1,205,662,218	502,358,513	**₱6,088,594**	₱5,023,585

**Absolute number of shares*

On November 26, 2013, the Parent Company's stockholders approved and authorized the following:
1. Creation of 1.0 billion non-cumulative, non-participating, non-convertible voting Preferred Stock with par value of ₱0.1 each and issuance of approximately 602.8 million of such Preferred Stock; and
2. Increase in authorized capital stock from ₱10.0 billion to ₱10.1 billion broken down into ₱10.0 billion Common Stock and ₱100.0 million Preferred Stock.

The Preferred Stock was offered to eligible common stockholders, with each eligible stockholder entitled to subscribe to one voting preferred share for every one common stock held as of the record date, June 16, 2014.

On July 10, 2014, the Parent Company issued 602,831,109 non-cumulative, non-participating, non-convertible Preferred Stock with ₱0.1 par value. The dividend rate is 3.9% repricing every 10 years. The Preferred Stock is redeemable at the sole option of the Parent Company at its issue price. Redemption shall at all times be subject to regulation of the BSP and shall require (i) prior approval of the BSP; (ii) replacement with at least an equivalent amount of newly paid-in-shares; (iii) a lapse of at least five (5) years from the date of issuance; and (iv) solvency of the Parent Company. Redemption shall not be allowed when the Parent Company is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the Parent Company to meet its debts as they mature. A sinking fund for the redemption of Preferred Shares amounting ₱60.3 million is created upon their issuance, to be effected by the transfer of free surplus to a restricted surplus account and shall not be available for dividend distribution.

On March 19 and May 28, 2013, the Parent Company's BOD and stockholders, respectively, approved the declaration of 20% stock dividend and increase in authorized capital stock from ₱6.0 billion divided into 600.0 million common shares to ₱10.0 billion divided into 1.0 billion common shares, subject to regulatory approvals.

On October 13 and November 12, 2013, the BSP and SEC, respectively, approved the increase in authorized capital stock from ₱6.0 billion to ₱10.0 billion, with par value of ₱10.0 each.

On November 19, 2013, the SEC approved the distribution of the 20.0% stock dividends with record and payment dates of December 2, 2013 and January 2, 2014, respectively.

Details of the Parent Company's cash dividend distribution follow:

	Dividend				
Date of declaration	Per share	Total amounts in thousands	Date of BSP approval	Record date	Payment date
August 19, 2014	₱1.00	₱602,831	September 30, 2014	October 15, 2014	November 10, 2014
March 25, 2014	1.00	602,831	April 22, 2014	May 7, 2014	June 2, 2014
September 24, 2013	1.00	502,359	November 14, 2013	November 29, 2013	December 27, 2013
March 19, 2013	1.00	502,359	April 30, 2013	May 15, 2013	June 10, 2013
September 4, 2012	1.00	502,359	October 3, 2012	October 17, 2012	November 14, 2012
March 26, 2012	1.00	502,359	April 26, 2012	May 11, 2012	June 6, 2012
September 27, 2011	1.00	502,359	October 21, 2011	November 9, 2011	December 6, 2011
March 29, 2011	1.00	418,631	May 20, 2011	June 6, 2011	July 1, 2011
August 19, 2010	1.00	418,631	October 7, 2010	October 22, 2010	November 19, 2010
March 23, 2010	1.00	418,631	May 12, 2010	May 26, 2010	June 22, 2010

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. The amount declared as dividends is the amount approved by the BSP.

The track record of the Parent Company's registration of securities in compliance with the Securities Regulation Code Rule 68 Annex 68-D 1(I) follows:

a. Authorized Shares

Date of SEC Approval	Type of Shares	Authorized Number of Shares*
April 8, 2014	Preferred	1,000,000,000
November 11, 2013	Common	1,000,000,000
July 29, 1998	Common	600,000,000
February 19, 1997	Common	450,000,000
June 8, 1995	Common	200,000,000

* Absolute number of shares

b. Stock Dividends

Date of BSP Approval	Percentage
July 11, 2013	20.00%
March 29, 2011	20.00%
May 26, 1998	13.75%
April 29, 1997	20.00%
March 26, 1996	20.00%

c. Stock Rights Offering

Date of SEC Approval	Number of shares Registered*	Offer Price
October 8, 2009	89,285,714	₱28.00 per share
February 19, 1997	65,037,768	25.00 per share

* Absolute number of shares

d. Number of Shareholders

Year End	Number of shareholders
December 31, 2014	1,864
December 31, 2013	1,900
December 31, 2012	1,911
December 31, 2011	1,975

In the consolidated financial statements, a portion of the Group's surplus corresponding to the accumulated net earnings of the subsidiaries amounting to ₱755.5 million and ₱549.3 million as of December 31, 2014 and 2013, respectively, is not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend declaration upon receipt of dividends from the investees, subject also to SEC and BSP rules on dividend declaration.

Surplus reserves of the Group and Parent Company consist of:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Reserve for trust business	**₱191,500**	₱174,400	**₱191,500**	₱174,400
Reserve for self-insurance	**197,799**	187,799	**180,000**	170,000
Reserve for redemption of Preferred stock	**60,283**	–	**60,283**	–
Reserve for contingencies	**11,000**	11,000	**11,000**	11,000
Others	**27,189**	22,491	**–**	–
	₱487,771	₱395,690	**₱442,783**	₱355,400

In compliance with existing BSP regulations, 10.00% of the net profits realized by the Parent Company from its trust business is appropriated to surplus reserve. The yearly appropriation is required until the surplus reserve for trust business equals 20.00% of the Parent Company's regulatory capital.

Reserves for self-insurance and contingencies represent the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Group's personnel or third parties. In 2007, SBS appropriated ₱17.8 million for self-insurance.

To comply with Securities Regulation Code Rule 49.1 (B), *Reserve Fund,* requiring broker dealers to annually appropriate a certain minimum percentage of its audited profit after tax as reserve fund, a portion of the Group's surplus corresponding to the net earnings of SBEI amounting to ₱27.2 million and ₱22.5 million as of December 31, 2014 and 2013, respectively, has been appropriated in the consolidated financial statements and is not available for dividend declaration.

The following table shows the components of comprehensive income closed to Surplus:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Net income attributable to the equity holders of the Parent Company	**₱7,163,738**	₱5,011,725	₱7,515,877	**₱6,984,986**	₱4,937,046	₱7,631,798
Remeasurement gains (losses) on defined benefit plans (Note 28)	**73,781**	(183,173)	350,662	**34,001**	(168,099)	328,340
	₱7,237,519	₱4,828,552	₱7,866,539	**₱7,018,987**	₱4,768,947	₱7,960,138

Capital Management
The Group considers the equity attributable to the equity holders of the Parent Company as the capital base of the Group. The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities and assessment of prospective business requirements or directions. In order to maintain or adjust the capital structure, the Group may adjust the amount and mode of dividend payment to shareholders, issue capital securities or undertake a share buy-back. The processes and policies guiding the determination of the sufficiency of capital for the Group relative to its business risks are the very same methodology that have been incorporated into the Group's Internal Capital Adequacy Assessment Process (ICAAP) in compliance with the requirements of BSP Circular No. 639 for its adoption. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget; as well as regulatory edicts. BSP requires submission of an ICAAP document every January 31. In 2014, while the Group has created additional triggers for its CET I capital, on top of its 2013 ICAAP, to its capital management process, no changes were made in the objectives and policies from previous years (see Note 11).

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred tax and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated note, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary nonfinancial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to statement of financial position exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 125.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors. Following is a summary of risk weights and selected exposure types:

Risk weight	Exposure/Asset type*
0%	Cash on hand; claims collateralized by securities issued by the non-government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20%	COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75%	Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage
100%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred tax)
125%	All NPLs (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities

** Not all inclusive*

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For CLNs and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

As of December 31, 2014 and 2013, the Group was in compliance with the required capital adequacy ratio (CAR).

The CAR of the Group and of the Parent Company as reported to the BSP as of December 31, 2014 and 2013 follows:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Tier 1 capital	**₱46,661,789**	₱39,617,918	**₱46,691,771**	₱38,683,697
Less Required deductions	**4,058,796**	545,698	**7,939,973**	2,232,440
	42,602,993	39,072,220	**38,751,798**	36,451,257
Excess from Tier 2 deducted to Tier 1 Capital*	–	–	–	(745,828)
Net Tier 1 Capital	**42,607,993**	39,072,220	**38,751,798**	35,705,429
Tier 2 capital	**12,310,295**	1,609,657	**12,131,648**	1,486,612
Less: Required deductions	–	545,698	–	2,232,440
	12,310,295	1,063,959	**12,131,648**	(745,828)
Excess of Tier 2 deducted to Tier 1 Capital*	–	–	–	745,828
Net Tier 2 Capital	**12,310,295**	1,063,959	**12,131,648**	–
Total Qualifying Capital	**₱54,913,288**	₱40,136,180	**₱50,883,446**	₱35,705,429
Risk Weighted Assets	**₱298,773,098**	₱259,040,995	**₱287,696,633**	₱248,517,007
Tier 1 CAR	**14.26%**	15.08%	**13.47%**	14.37%
Total CAR	**18.38%**	15.49%	**17.69%**	14.37%

**Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.*

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos.709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures* which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Circular sets out a minimum REST limit of 6.0% CET1 capital ratio and 10% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25% on the Group's real estate exposure. These limits shall be complied with at all times.

The Group has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

26. **Trust Operations**

Securities and other properties held by the Parent Company in a fiduciary or agency capacity for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Parent Company.

As of December 31, 2014 and 2013, treasury notes and bills included under 'Investment securities at amortized cost' with a total face value of ₱425.2 million and ₱672.2 million, respectively, were deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Parent Company's trust functions.

27. **Income Taxes**

Provision for income tax consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Current:						
Final	**₱503,047**	₱187,359	₱267,179	**₱492,963**	₱185,705	₱255,321
Corporate	**640,070**	388,964	457,259	**527,325**	284,455	385,084
	1,143,117	576,323	724,438	**1,020,288**	470,160	640,405
Deferred	**(274,177)**	(156,117)	(491,193)	**(282,634)**	(164,252)	(500,908)
	₱868,940	₱420,206	₱233,245	**₱737,654**	₱305,908	₱139,497

The Group's provision for income tax - current represents final tax, RCIT of the Parent Company's RBU, SBEI and SBCIC, and MCIT of the Parent Company's FCDU, SBCC, SBS and other subsidiaries.

Under Philippine tax laws, the Parent Company and its financial intermediary subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of documentary stamp tax and gross receipts tax.

Current tax regulations provide that the RCIT rate shall be 30.00%. Interest expense allowed as a deductible expense is reduced by 33.00%.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as a deduction from the taxable income in the next three years from the year of inception. Current tax regulations also set a limit on the amount of entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services. In 2014, 2013 and 2012, EAR expenses (included under 'Miscellaneous expenses' in the statements of income) amounted to ₱475.5 million, ₱469.2 million, and ₱392.3 million, respectively, for the Group and ₱450.2 million, ₱443.6 million, and ₱373.7 million, respectively, for the Parent Company (see Note 30).

RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, off-shore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency-denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Components of net deferred tax assets follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Deferred tax assets on:				
Allowance for credit losses	**₱998,696**	₱764,335	**₱802,397**	₱592,463
Unamortized past service cost	**140,883**	171,173	**134,325**	163,726
Unrealized loss on derivative liabilities	**80,258**	129,870	**80,258**	129,870
Accrued rent expense	**47,166**	23,849	**43,594**	21,146
Accumulated depreciation on investment properties	**20,423**	–	**15,426**	–
Others	**38,732**	63,055	**5,867**	4,030
	1,326,158	1,152,282	**1,081,867**	911,235
Deferred tax liabilities on:				
Unrealized gain on derivative assets	**133,318**	245,331	**133,318**	245,331
Branch licenses arising from business combination	**108,000**	108,000	**–**	–
Gain on foreclosure of real assets and other properties acquired	**19,168**	19,168	**–**	–
Retirement asset	**18,202**	17,197	**–**	–
Accrued rent income	**755**	11,959	**755**	744
Unrealized gain on financial assets at FVTOCI	**7,571**	7,689	**–**	–
Others	**38,975**	15,575	**–**	–
	325,989	424,919	**134,073**	246,075
Net deferred tax assets	**₱1,000,169**	₱727,363	**₱947,794**	₱665,160

Net deferred tax asset/liability of the Group is included in the following accounts in the statements of financial position:

	2014	2013
Deferred tax assets	**₱1,000,169**	₱743,542
Other liabilities (Note 23)	**–**	16,179
	₱1,000,169	₱727,363

As of December 31, 2014 and 2013, deferred tax assets of the Group and of the Parent Company that have not been recognized in respect of the deductible temporary differences follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Allowance for credit losses	**₱53,023**	₱126,090	**₱–**	₱–
Remeasurement loss through OCI	**107,326**	109,407	**103,126**	109,001
NOLCO	**137,865**	77,667	**19,619**	–
MCIT	**21,090**	12,917	**674**	–
Unamortized past service costs	**341**	–	**–**	–
Others	**185,937**	64,232	**170,945**	64,232
	₱505,582	₱390,313	**₱294,364**	₱173,233

Details of the Group's NOLCO follow:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2011	₱63,236	₱63,236	₱–	2014
2012	186,153	–	186,153	2015
2013	150,324	2,562	147,762	2016
2014	136,458	–	136,458	2017
	₱536,171	₱65,798	₱470,373	

Details of the Group's MCIT follow:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2011	₱5,730	₱5,730	₱–	2014
2012	7,671	–	7,671	2015
2013	10,866	–	10,866	2016
2014	12,381	–	12,381	2017
	₱30,918	₱5,730	₱30,918	

A reconciliation between the applicable statutory income tax rate to the effective income tax rate follows:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effect of:						
FCDU net income	**(15.03)**	(16.09)	(6.15)	**(15.74)**	(16.91)	(6.15)
Nondeductible expenses	**7.15**	4.85	3.62	**7.66**	4.92	3.50
Interest income from tax-paid and exempt investments	**(6.78)**	(5.61)	(4.44)	**(6.38)**	(5.80)	(4.34)
Change in unrecognized deferred tax assets	**(3.39)**	(3.13)	(5.42)	**(3.66)**	(4.10)	(6.80)
Nontaxable income	**(1.21)**	(2.40)	(14.47)	**(2.33)**	(2.28)	(14.41)
Others	**–**	–	(0.14)	**–**	–	–
Effective income tax rate	**10.74%**	7.62%	3.00%	**9.55%**	5.83%	1.80%

28. Pension Obligations

The Group provides noncontributory defined benefit pension plans for all employees. Provisions for pension obligations are established for benefits payable in the form of retirement pensions. Benefits are dependent on years of service and the respective employee's final compensation. The most recent actuarial valuation was carried out as of December 31, 2014. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the projected unit credit actuarial method.

The amounts of defined benefit plans are presented in the statements of financial position as follows:

	Consolidated		Parent Company	
	December 31		December 31	
	2014	2013	**2014**	2013
Other assets (Note 16)	**(₱117,820)**	(₱170,314)	**(₱30,653)**	(₱105,123)
Accrued interest, taxes and other expenses (Note 22)	**20,483**	16,897	**–**	–
Net pension liability (asset)	**(₱97,337)**	(₱153,417)	**(₱30,653)**	(₱105,123)

Changes in net defined benefit liability of the Group and Parent Company in 2014 are as follows:

	Consolidated		
	Present Value of DBO	**Fair Value of Plan Assets**	**Net retirement liability/(asset)**
December 31, 2014			
Balance at beginning of year	**₱2,119,209**	**(₱2,272,626)**	**(₱153,417)**
Net Benefit Cost in Statement of Income			
Current service cost	**190,178**	**–**	**190,178**
Net interest	**95,543**	**(102,652)**	**(7,109)**
	285,721	**(102,652)**	**183,069**
Benefits paid	**(107,128)**	**107,128**	**–**
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	**–**	**(167,926)**	**(167,926)**
Actuarial changes arising from changes in demographic assumptions	**–**	**–**	**–**
Actuarial changes arising from experience adjustments	**69,694**	**–**	**69,694**
Actuarial changes arising from changes in financial assumptions	**24,373**	**–**	**24,373**
	94,067	**(167,926)**	**(73,859)**
Contributions paid	**–**	**(53,130)**	**(53,130)**
Balance at end of year	**₱2,391,869**	**(₱2,489,206)**	**(₱97,337)**
December 31, 2013			
Balance at beginning of year	₱1,825,641	(₱2,231,720)	(₱406,079)
Net Benefit Cost in Statement of Income			
Current service cost	154,588	–	154,588
Net interest	91,817	(112,353)	(20,536)
	246,405	(112,353)	134,052
Benefits paid	(92,767)	92,767	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	43,228	43,228
Actuarial changes arising from changes in demographic assumptions	243	–	243
Actuarial changes arising from experience adjustments	50,890	–	50,890
Actuarial changes arising from changes in financial assumptions	88,797	–	88,797
	139,930	43,228	183,158
Contributions paid	–	(64,548)	(64,548)
Balance at end of year	₱2,119,209	(₱2,272,626)	(₱153,417)

	Parent Company		
	Present Value of DBO	**Fair Value of Plan Assets**	**Net retirement liability (asset)**
December 31, 2014			
Balance at beginning of year	**₱1,921,978**	**(₱2,027,101)**	**(₱105,123)**
Net Benefit Cost in Statement of Income			
Current service cost	**165,812**	**–**	**165,812**
Net interest	**86,104**	**(90,814)**	**(4,710)**
	251,916	**(90,814)**	**161,102**
Benefits paid	**(85,401)**	**85,401**	**–**
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	**–**	**(148,412)**	**(148,412)**
Actuarial changes arising from changes in demographic assumptions	**–**	**–**	**–**
Actuarial changes arising from experience adjustments	**98,399**	**–**	**98,399**
Actuarial changes arising from changes in financial assumptions	**16,012**	**–**	**16,012**
	114,411	**(148,412)**	**(34,001)**
Contributions paid	**–**	**(52,631)**	**(52,631)**
Balance at end of year	**₱2,202,904**	**(₱2,233,557)**	**(₱30,653)**
December 31, 2013			
Balance at beginning of year	₱1,655,554	(₱1,993,905)	(₱338,351)
Net Benefit Cost in Statement of Income			
Current service cost	134,679	–	134,679
Net interest	82,777	(99,695)	(16,918)
	217,456	(99,695)	117,761
Benefits paid	(81,672)	81,672	–
Remeasurement in Other Comprehensive Income			
Return on plan assets (excluding amount included in net interest)	–	37,459	37,459
Actuarial changes arising from changes demographic assumptions	(98)	–	(98)
Actuarial changes arising from experience adjustments	54,826	–	54,826
Actuarial changes arising from changes in financial assumptions	75,912	–	75,912
	130,640	37,459	168,099
Contributions paid	–	(52,632)	(52,632)
Balance at end of year	₱1,921,978	(₱2,027,101)	(₱105,123)

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	Consolidated				Parent Company			
	2014		2013		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Debt instruments:								
Government Securities	₱901,104		₱953,294		₱814,564		₱857,955	
High Grade	1,056		149,299		–		118,941	
Standard Grade	37,747		101,037		28,596		66,897	
Substandard Grade	–		101,783		–		100,739	
Not rated	313,556		44,780		260,728		43,687	
	1,253,463	50.3	1,350,193	59.4	1,103,888	49.4	1,188,219	58.6
Equity instruments:								
Financial intermediaries	207,095		174,392		177,717		143,750	
Power, electricity and water distribution	58,583		58,203		55,128		55,133	
Wholesale/Retail Trade	68,262		37,236		54,518		32,700	
Transport, storage and communication	50,200		7,598		50,200		5,732	
Real estate	5,561		5,940		5,561		4,084	
Manufacturing	–		3,210		–		–	
Others	38,559		22,576		28,675		16,000	
	428,260	17.2	309,155	13.6	371,799	16.6	257,399	12.7
Deposits in banks	245,466	9.9	314,227	13.8	222,073	9.9	300,565	14.8
Investments in Unit Investment Trust Funds	487,688	19.6	215,314	9.5	462,830	20.7	198,553	9.8
Loans and other receivables:								
Government Securities	12,176		13,659		11,029		12,387	
High Grade	109		1,278		102		1,115	
Standard Grade	93		458		70		287	
Substandard Grade	–		1,274		–		1,259	
Not rated	62,858		67,966		62,410		67,959	
	75,236	3.0	84,635	3.7	73,611	3.4	83,007	4.1
Total	₱2,490,113	100.0	₱2,273,524	100.0	₱2,234,201	100.0	₱2,027,743	100.0

All equity and debt instruments held have quoted prices in an active market. The remaining plan assets do not have quoted market prices in active market. The plan assets consist of diverse investments and is not exposed to any concentration risk.

The principal actuarial assumptions used in determining retirement liability of the Parent Company and some of its subsidiaries as of January 1, 2014 and 2013 are shown below:

	2014			2013		
	Average Duration of Benefit Payments	Salary Rate Increase	Discount Rate	Average Duration of Benefit Payments	Salary Rate Increase	Discount Rate
Parent Company	15	7.00%	4.48%	18	7.00%	5.00%
SBS	16	7.00%	5.08%	23	7.00%	5.08%
SBCC	15	7.00%	4.70%	19	7.00%	4.70%
SBCIC	15	7.00%	4.46%	18	7.00%	4.46%
SBEI	14	7.00%	4.48%	18	7.00%	4.48%

Discount rates used in computing for the present value of the obligation of the Parent Company and significant subsidiaries as of December 31, 2014 and 2013 follow:

	Parent Company	SBS	SBCC	SBCIC	SBEI
2014	**4.39%**	**4.54%**	**4.43%**	**4.46%**	**4.35%**
2013	4.48%	5.08%	4.70%	4.46%	4.48%

The sensitivity analysis as of December 31, 2014 shown below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	Consolidated		**Parent Company**	
	Increase (decrease)	Amount	Increase (decrease)	Amount
Discount rates	1.00%	(₱188,750)	1.00%	(₱166,158)
	1.00%	230,168	1.00%	202,583
Turnover rate	10.00%	41,955	10.00%	33,458
	10.00%	(41,955)	10.00%	(33,458)
Future salary increases	1.00%	217,493	1.00%	190,949
	1.00%	(183,993)	1.00%	(161,750)

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		**Parent Company**	
	2014	2013	**2014**	2013
Less than 1 year	**₱520,091**	₱472,997	**₱520,091**	₱472,997
More than 1 year to 5 years	**811,026**	710,654	**811,026**	710,654
More than 5 years to 10 years	**1,330,001**	1,195,254	**1,330,001**	1,195,254
More than 10 years to 15 years	**2,009,275**	1,860,659	**2,009,275**	1,860,659
More than 15 years to 20 years	**1,198,631**	1,112,213	**1,198,631**	1,112,213
Total	**₱5,869,024**	₱5,351,777	**₱5,869,024**	₱5,351,777

There are no reimbursement rights recognized as a separate asset as of December 31, 2014 and 2013.

The Group and the Parent Company expect to contribute ₱161.7 million in 2015 to its defined benefit plans.

29. Service Charges, Fees and Commissions

This account consists of service charges, fees and commissions on:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Stock brokerage	**₱398,137**	₱458,460	₱253,600	**₱–**	₱–	₱–
Loans	**350,519**	229,450	167,990	**291,090**	180,669	147,521
Deposits	**272,655**	233,810	247,852	**244,710**	226,690	237,406
Advisory	**239,277**	193,277	218,349	**–**	–	–
Credit cards	**175,307**	174,195	167,227	**106,227**	97,124	87,804
Remittance	**9,143**	6,848	5,903	**9,142**	6,797	5,903
Miscellaneous	**69,853**	83,744	62,069	**67,843**	64,563	47,397
	₱1,514,891	₱1,379,784	₱1,122,990	**₱719,012**	₱575,843	₱526,031

30. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Income from trust operations	**₱170,919**	₱180,902	₱131,512	**₱170,919**	₱180,902	₱131,512
Recovery on charged-off assets	**167,120**	82,376	169,293	**135,201**	52,119	134,102
Dividend income (Note 10)	**16,557**	19,045	4,938	**69,924**	17,501	3,474
Miscellaneous (Note 15)	**5,369**	6,518	13,737	**8,746**	5,864	9,181
	₱359,965	₱288,841	₱319,480	**₱384,790**	₱256,386	₱278,269

Miscellaneous expenses consists of:

	Consolidated			Parent Company		
	2014	2013	2012	**2014**	2013	2012
Entertainment, amusement and recreation (Note 27)	**₱475,529**	₱469,213	₱392,341	**₱450,198**	₱443,568	₱373,682
Insurance expenses	**446,650**	336,371	267,856	**425,073**	319,188	252,724
Security, clerical, messengerial and janitorial services	**397,564**	328,666	259,238	**333,898**	262,259	206,020
Management and other professional fees	**383,908**	288,645	300,008	**175,561**	92,173	163,335
Advertising and publicity	**360,816**	141,656	210,485	**308,102**	98,216	174,993
Postage, telephone and cables and telegrams	**151,352**	143,865	147,388	**84,992**	73,951	68,198
Banking fees	**96,643**	89,285	66,102	**94,254**	87,401	64,614
Stationery and supplies used	**64,546**	40,994	49,682	**52,097**	26,853	32,835
Donations and charitable contributions	**61,525**	63,422	120,917	**7,522**	3,000	74,000
Brokerage fees	**53,808**	62,857	78,357	**53,808**	62,857	78,357
Fines, penalties and other charges	**45,627**	27,849	13,262	**40,834**	25,151	12,943
Litigation/assets acquired expenses	**38,313**	48,322	60,836	**24,496**	36,810	44,145
Miscellaneous	**413,443**	398,845	278,102	**234,005**	185,538	176,076
	₱2,989,724	₱2,439,990	₱2,244,574	**₱2,284,840**	₱1,716,965	₱1,721,922

Miscellaneous expense includes travelling expenses amounting to ₱98.5 million, ₱91.5 million, and ₱62.0 million for the Group and ₱86.0 million, ₱82.5 million, ₱54.6 million for the Parent Company for the years ended December 31, 2014, 2013 and 2012, respectively. It also includes fuel and lubricants amounting to ₱40.2 million, ₱38.7 million and ₱34.9 million for the Group and ₱28.6 million, ₱25.2 million and ₱23.7 million for the Parent Company for the years ended December 31, 2014, 2013 and 2012, respectively.

31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- subsidiaries, joint ventures and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions of the Parent Company with subsidiaries

	December 31, 2014		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/ Nature**
Subsidiaries			
Due from Other Banks:		**₱119**	Earns interest at the respective bank deposit rates
Deposits	**₱8,125**		
Withdrawals	**8,033**		
Interbank loans receivable:		–	1 to 7 day term, unsecured, with interest 2.5%, no impairment
Grants	**62,040,000**		
Settements	**63,010,000**		
Loans and receivables:		**USD710**	Short-term, unsecured, with interest ranging from 1.75% to 2.0%, no impairment
Grants	**USD1,495**		
Settlements	**1,765**		
Loans and receivables:		**₱40,000**	Short-term, unsecured, with interest ranging from 2.0% to 4.8%, no impairment
Grants	**₱134,000**		
Settlements	**244,000**		
Accrued interest receivable	**15,344**	**375**	Interest income and accrued interest receivable, no impairment
Accounts receivable		**30,566**	On demand, unsecured, non-interest bearing, no impairment
Deposit liabilities:		**1,506,793**	Earns interest at the respective bank deposit rates
Deposits	**135,568,070**		
Withdrawals	**135,696,612**		
Bills Payable		–	Short-term, unsecured, 2.0% - 4.00%, no impairment
Grants	**34,860,000**		
Settlements	**34,860,000**		
Accounts payable		**7,674**	On demand, unsecured, non-interest bearing
Accrued interest payable	**11,357**	**1,623**	Interest expense and accrued interest payable
Rent income		**5,937**	Lease of office spaces for periods ranging from 1 to 5 years
Dividend income		**55,000**	Dividends earned
Miscellaneous income		**897**	Trust fees
Commitments - credit facility	**13,145,000**		Unsecured

	December 31, 2013		
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Subsidiaries			
Due from Other Banks:		₱27	Earns interest at the respective bank deposit rates
Deposits	₱531,333		
Withdrawals	531,306		
Interbank loans receivable:		970,000	1 to 7 day term, unsecured, with interest 2.125%, no impairment
Grants	83,202,000		
Settements	82,232,000		
Loans and receivables:		USD980	Short-term, unsecured, with interest ranging from 1.75% to 2.0%, no impairment
Grants	USD1,930		
Settlements	1,590		
Loans and receivables:		₱150,000	Short-term, unsecured, with interest ranging from 2.0% to 4.0%, no impairment
Grants	₱438,000		
Settlements	300,000		
Accrued interest receivable	17,846	356	Interest income and accrued interest receivable, no impairment

(Forward)

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
		December 31, 2013	
Accounts receivable		₱14,498	On demand, unsecured, non-interest bearing, no impairment
Deposit liabilities:		1,635,335	Earns interest at the respective bank deposit rates
Deposits	₱139,182,564		
Withdrawals	138,566,222		
Accounts payable		20,613	On demand, unsecured, non-interest bearing
Accrued interest payable	7,107	617	Interest expense and accrued interest payable
Rent income		5,334	Lease of office spaces for periods ranging from 1 to 5 years
Miscellaneous income		894	Trust fees
Commitments - credit facility	15,795,000		Unsecured

Accounts receivable from subsidiaries pertains to expenses paid by the Parent Company, which were later billed for reimbursement. Accounts payable to SBCC pertains to collections received from credit cardholders on behalf of the Parent Company.

The Parent Company has lease agreements with some of its subsidiaries for periods ranging from 1 to 5 years. The lease agreements include the share of the subsidiaries in the maintenance of the building.

The foregoing transactions were eliminated in the consolidated financial statements of the Group.

Other related party transactions conducted in the normal course of business includes the following, as detailed in the Memorandum of Agreement (MOA) between the Parent Company and its subsidiaries (except for SBCC and SBS):

- Human resource-related services
- Finance/accounting functions including audit
- Collection services (for legal action)
- Preparation of reports
- Processing of credit application (for property appraisal and credit information)
- General services
- Legal documentation
- Information technology related service

Expenses allocated to SBCIC and SBEI pertaining to the above services amounted to ₱43.1 million in 2014, ₱44.1 million in 2013 and ₱26.4 million in 2012. The Parent Company has not charged expenses to the other subsidiaries since the levels of their operations remain low.

<u>Transaction of the Group with the Joint Venture</u>

Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/ Nature**
		December 31, 2014	
Parent Company			
Receivables purchased	**₱755,919**	**₱1,195,178**	Assignment of rights on a without recourse basis
Collection Fee	**1,202**	**5,015**	Collection fee expense and prepaid collection fee, equivalent to 0.2% of the selling price of the lease receivables amortized over the lease term
Loans receivable:		**167,128**	3-month to 3-year term; earns 4.78% to 6.32% interest
Grants	**872,000**		
Settlement	**911,761**		
Accrued interest receivable	**108**	**–**	Interest income and accrued interest receivable

(Forward)

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
	December 31, 2014		
Deposit liabilities:		**₱59,397**	Earns interest at the respective bank deposit rates
Deposits	**₱3,659,718**		
Withdrawals	**3,739,424**		
Accrued interest payable	**9,111**	**330**	Interest expense and accrued interest payable
Accounts payable	**12,489**	**959**	Expenses advanced by the Parent Company and outstanding accounts payable (on demand, unsecured, non-interest bearing).
Rent Income	**1,419**		Rental income for space occupied by SBML
Refundable deposits		**215**	Unsecured, non-interest bearing, no impairment
Commitments - credit facility	**1,000,000**		Unsecured
SBS			
Receivables Purchased	**53,101**	**331,673**	Assignment of rights on a without recourse basis
Collection fee	**543**	**1,268**	Collection fee expense and prepaid collection fee, equivalent to 0.2% of the selling price of the lease receivables amortized over the lease term

Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
	December 31, 2013		
Parent Company			
Receivables purchased	₱637,272	₱867,228	Assignment of rights on a without recourse basis
Collection Fee	597	2,907	Collection fee expense and prepaid collection fee, equivalent to 0.2% of the selling price of the lease receivables amortized over the lease term
Loans receivable:		206,889	3-month to 3-year term; earns 4.78% to 6.32% interest
Grants	517,400		
Settlement	464,900		
Accrued interest receivable	11,102	451	Interest income and accrued interest receivable
Deposit liabilities:		139,103	Earns interest at the respective bank deposit rates
Deposits	2,350,598		
Withdrawals	2,215,158		
Accrued interest payable	4	4	Interest expense and accrued interest payable
Accounts Payable	12,140	1,564	Expenses advanced by the Parent Company and outstanding accounts payable (on demand, unsecured, non-interest bearing).
Rent Income	1,419	–	Rental income for space occupied by SBML
Refundable Deposits	–	215	Unsecured, non-interest bearing, no impairment
Commitments - credit facility	1,000,000	–	Unsecured
SBS			
Receivables purchased	328,731	340,293	Assignment of rights on a without recourse basis
Collection Fee	264	1,565	Collection fee expense and prepaid collection fee, equivalent to 0.2% of the selling price of the lease receivables amortized over the lease term

In 2014, 2013 and 2012, SBML sold various lease receivables to the Parent Company with carrying amounts of ₱714.3 million, ₱616.3 million, and ₱266.1 million, respectively, and realized gains amounting to ₱41.7 million, ₱21.0 million, and ₱11.2 million, respectively. Also, in each of the same years ended, SBML sold various lease receivables to SBS with carrying amounts of ₱50.9 million, ₱312.6 million, and ₱184.9 million, respectively, and realized gains amounting to ₱2.2 million, ₱16.2 million, and ₱12.1 million, respectively.

The Parent Company's proportionate share in the gain on sale of lease receivables was eliminated in the consolidated financial statements of the Group.

Transaction of the Group with another Related Party

As part of the Group's continuing support for worthwhile education and livelihood projects, it has made donations to SB Foundation, Inc. (SB Foundation), a non-stock, non-profit organization registered with the SEC and accredited by the Philippine Council for Non-Governmental Organization, as follows:

Donor	**2014**	2013
SBEI	**₱30,000**	₱38,320
SBCIC	**24,000**	22,000
Total	**₱54,000**	₱60,320

The Parent Company also recognized trust fees amounting to ₱0.6 million and ₱0.7 million in 2014 and 2013, respectively, for acting as the Investment Manager of SB Foundation's fund.

Transactions of the Group with Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers senior officers to constitute key management personnel.

	Consolidated		
	December 31, 2014		
Category	**Amount/ Volume**	**Outstanding Balances**	**Terms and Conditions/ Nature**
Loans and receivables:		**₱1,552**	Unsecured, 1 month term, earns 12.0% interest,no impairment
Grants	**₱705**		
Settlements	**533**		
Accrued interest receivable		–	Interest income and accrued interest receivable
Deposit liabilities		**531,718**	Earns interest at respective bank deposit rates

	Consolidated		
	December 31, 2013		
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Loans and receivables:		₱1,380	Unsecured, 1 month term, earns 12.0% interest,no impairment
Grants	₱240		
Settlements	798		
Accrued interest receivable	1,013	–	Interest income and accrued interest receivable
Deposit liabilities		435,427	Earns interest at respective bank deposit rates

	Parent Company		
	December 31, 2014		
Category	**Amount/Volume**	**Outstanding Balances**	**Terms and Conditions/ Nature**
Deposit liabilities		**₱525,943**	Earns interest at respective bank deposit rates

	Parent Company		
	December 31, 2013		
Category	Amount/Volume	Outstanding Balances	Terms and Conditions/ Nature
Deposit liabilities		₱433,839	Earns interest at respective bank deposit rates

Compensation of key management personnel follows:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Salaries and other short-term benefits	**₱224,748**	₱257,460	₱197,797	**₱151,586**	₱166,386	₱118,635
Post-employment benefits	**12,472**	14,369	17,396	**9,282**	11,794	14,307
	₱237,220	₱271,829	₱215,193	**₱160,868**	₱178,180	₱132,942

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plan.

Transactions of the Group with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has business relationships with a number of its retirement plans pursuant to which it provides trust and management services to these plans. Income earned by the Parent Company from such services amounted to ₱3.1 million and ₱2.6 million in 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the fair values of the plan assets of the Parent Company and some of its subsidiaries in the retirement funds amounted to ₱2.5 billion and ₱2.3 billion, respectively, of which ₱2.2 billion and ₱2.0 billion, respectively, pertains to the Parent Company.

Relevant information on statements of financial position of carrying values of the Parent Company's retirement funds:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Debt instruments	**₱1,253,463**	₱1,350,193	**₱1,103,888**	₱1,188,219
Investments in Unit Investment Trust Funds	**487,688**	215,314	**462,830**	198,553
Equity instruments	**428,260**	309,155	**371,799**	257,399
Deposits in banks	**245,466**	314,227	**222,073**	300,565
Loans and other receivables	**75,236**	84,635	**73,611**	83,007
Total Fund Assets	**₱2,490,113**	₱2,273,524	**₱2,234,201**	₱2,027,743
Total Fund Liability	**₱907**	₱898	**₱644**	₱642

Debt instruments include government and private securities. Deposits in banks of the Group and Parent Company include Special Deposit Account placement with BSP amounting to ₱173.7 million and ₱153.7 million in 2014, respectively, and ₱304.3 million and ₱291.6 million in 2013, respectively.

The Group's retirement funds may hold or trade the Parent Company's shares or securities. Significant transactions of the retirement fund, particularly with related parties, are approved by the Trust Investment Committee. A summary of transactions with related party retirement plans follows:

(amounts in thousands except number of shares and market value per share)

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Deposit in banks	**₱71,740**	₱9,897	**₱68,328**	₱8,975
Equity instruments	**140,107**	106,398	**140,107**	106,398
Dividend income	**1,851**	1,534	**1,841**	1,534
Interest income	**444**	1,110	**411**	394
Number of Parent Company's shares held by plan - common	**920**	920,400	**920**	920,400
Number of Parent Company's shares held by plan - preferred	**2,060**		**2,060**	
Market value per common share	**₱152.00**	₱115.60	**₱152.00**	₱115.60

Voting rights over the Parent Company's shares are exercised by an authorized trust officer.

Regulatory Reporting
In the ordinary course of business, the Parent Company has loan transactions with subsidiaries and with certain DOSRI. Under the Parent Company's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of the bank's net worth, the unsecured portion shall not exceed 5.00% of such net worth. Further, the total outstanding exposures shall not exceed 20.00% of the net worth of the lending bank. The said Circular became effective on February 15, 2007.

BSP Circular No. 423, dated March 15, 2004 amended the definition of DOSRI accounts. Further, BSP issued Circular No. 464 dated January 4, 2005 clarifying the definition of DOSRI accounts. The following table shows information relating to DOSRI accounts of the Parent Company:

	2014	2013
Total outstanding DOSRI accounts (in billions)	**₱0.135**	₱0.316
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.07**	0.07
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	–	0.12
Percent of DOSRI accounts to total loans	**0.07**	0.19
Percent of unsecured DOSRI accounts to total DOSRI loans	**11.03**	66.41
Percent of past due DOSRI accounts to total DOSRI loans	–	–
Percent of nonperforming DOSRI accounts to total DOSRI loans	–	–

Total interest income on DOSRI accounts in 2014, 2013 and 2012 amounted to ₱16.3 million, ₱17.8 million, and ₱2.4 million, respectively.

32. **Long-term Leases**

The Group has entered into commercial property leases with various tenants on its investment property portfolio and part of its bank premises, consisting of the Group's surplus offices and real properties acquired. These noncancellable leases have remaining lease terms of between 1 and 5 years as of December 31, 2014 and 2013. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.0%. Rent income from long-term leases (included in Rent in the statements of income) amounted to ₱137.7 million in 2014, ₱140.9 million in 2013 and ₱92.3 million in 2012 for the Group, of which, ₱35.4 million in 2014, ₱41.2 million in 2013, and ₱42.8 million in 2012 pertain to the Parent Company.

Future minimum rental receivable under non-cancellable operating leases follow:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Within one year	**₱150,879**	₱126,216	**₱11,300**	₱10,808
After one year but not more than five years	**313,261**	374,199	**24,045**	20,900
More than five years	**3,897**	5,707	**3,897**	5,707
	₱468,037	₱506,122	**₱39,242**	₱37,415

The Parent Company leases the premises occupied by some of its branches (about 17.51% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their head offices and most of their branches. The lease contracts are for periods ranging from 1 to 20 years and are renewable at the Parent Company's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.0%. In 2014, 2013 and 2012, rent expense (included in 'Occupancy costs' in the statements of income) amounted to ₱414.7 million, ₱318.8 million and ₱267.0 million, respectively, for the Group, of which, ₱329.8 million, ₱251.6 million and ₱188.7 million, respectively, pertain to the Parent Company.

Future minimum rental payable under non-cancelable operating leases are as follows:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Within one year	**₱330,143**	₱347,318	**₱220,905**	₱247,098
After one year but not more than five years	**777,636**	1,112,358	**565,951**	814,542
More than five years	**53,488**	90,621	**46,836**	90,621
	₱1,161,267	₱1,550,297	**₱833,692**	₱1,152,261

33. Commitments and Contingent Liabilities

In the normal course of operations of the Group, there are outstanding commitments and contingent liabilities and bank guarantees that are not reflected in the financial statements. The Group does not anticipate losses that will materially affect its financial position and financial performance as a result of these transactions.

There are several suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Group's financial position and financial performance.

Regulatory Reporting
The following is a summary of the Group's and of the Parent Company's commitments and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2014	2013	**2014**	2013
Trust department accounts	**₱35,706,263**	₱35,800,898	**₱35,706,263**	₱35,800,898
Committed loan line	**30,096,631**	4,674,422	**30,096,631**	4,674,422
Unused commercial letters of credit	**20,344,355**	23,609,794	**20,344,355**	23,609,794
Unutilized credit limit of credit cardholders	**10,450,280**	12,009,161	**4,497,405**	5,150,130
Outstanding guarantees	**6,762,593**	564,270	**6,762,593**	564,270
Inward bills for collection	**1,424,932**	462,383	**1,424,932**	462,383
Late deposit/payment received	**454,785**	554,236	**451,965**	547,294
Outward bills for collection	**188,580**	278,282	**180,733**	265,264
Others	**64,644**	953,887	**64,644**	953,887

34. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. In 2014, the Group underwent changes in the structure of its internal organization in a manner that caused the composition of its reportable segments to change. Formerly part of the *Commercial and Retail Banking Segment* in the old structure, the Banking Centers Group was incorporated into the former *Corporate and Investment Banking Segment* to create the new *Wholesale Banking Segment*. The Wholesale Banking Segment was consolidated to provide better and more dedicated service to the Corporate and Commercial clients of the Bank. The Retail Banking Segment will focus on providing Better Banking to individual and retail clients.

Accordingly, the corresponding segment information for the prior period presented herein is restated to reflect such change. Based on management's assessment, the Group now derives revenues from the following main operating business segments:

Financial Markets Segment - this segment focuses on providing money market, foreign exchange, financial derivatives, securities distribution, asset management, trust and fiduciary services, as well as the management of the funding operations for the Group.

Wholesale Banking Segment - this segment addresses the top 1,000 corporate, institutional, and public sector markets. Services include relationship management, lending and other credit facilities, trade, cash management and deposit-taking services provided by the Group. It also provides structured financing and advisory services relating to debt and equity capital raising, project financing, and mergers and acquisitions. The Group's equity brokerage operations are also part of this segment.

Retail Banking Segment - this segment addresses the individual, retail, small-and-medium enterprise and middle markets. It covers deposit-taking and servicing, commercial and consumer loans and credit card facilities. The Group includes SBS as part of this segment.

All Other Segments - this segment includes but not limited to remittances, leasing, transaction banking and other support services. Other operations of the Group comprise the operations and financial control groups.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income after taxes, which is measured in a manner consistent with PFRS as shown in the statements of income.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location), therefore, geographical segment information is no longer presented.

The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information follows (amounts in millions):

	December 31, 2014				
	Financial Markets	**Wholesale Banking**	**Retail Banking**	**All Other Segments**	**Total**
Statement of Income					
Net interest income:					
Third party	**₱4,375**	**₱7,212**	**(₱213)**	**(₱213)**	**₱11,161**
Intersegment	**(783)**	**(3,682)**	**3,204**	**1,261**	**–**
	3,592	**3,530**	**2,991**	**1,048**	**11,161**
Noninterest income	**3,626**	**1,067**	**1,064**	**(148)**	**5,609**
Revenue - net of interest expense	**7,218**	**4,597**	**4,055**	**900**	**16,770**
Noninterest expense	**754**	**2,182**	**4,649**	**1,095**	**8,680**
Income before income tax	**6,464**	**2,415**	**(594)**	**(195)**	**8,090**
Provision for income tax	**440**	**395**	**(67)**	**101**	**869**
Non-controlling interest in net income of subsidiaries	**–**	**–**	**–**	**57**	**57**
Net income for the year attributable to the Parent Company	**₱6,024**	**₱2,020**	**(₱527)**	**(₱353)**	**₱7,164**
Statement of Financial Position					
Total assets	**₱173,656**	**₱191,577**	**₱25,300**	**₱6,665**	**₱397,198**
Total liabilities	**₱83,036**	**₱101,441**	**₱155,908**	**₱8,856**	**₱349,241**
Other Segment Information					
Capital expenditures	**₱14**	**₱37**	**₱587**	**₱381**	**₱1,019**
Depreciation and amortization	**₱7**	**₱19**	**₱303**	**₱194**	**₱523**
Provision for credit and impairment losses	**₱–**	**₱386**	**₱158**	**₱210**	**₱754**

	December 31, 2013 (As Restated)				
	Financial Markets	Wholesale Banking	Retail Banking	All Other Segments	Total
Statement of Income					
Net interest income:					
Third party	₱2,827	₱5,779	₱116	(₱338)	₱8,384
Intersegment	(800)	(3,300)	3,401	699	–
	2,027	2,479	3,517	361	8,384
Noninterest income	2,483	875	793	(223)	3,928
Revenue - net of interest expense	4,510	3,354	4,310	138	12,312
Noninterest expense	626	1,760	4,011	403	6,800
Income before income tax	3,884	1,594	299	(265)	5,512
Provision for income tax	561	304	97	(542)	420
Non-controlling interest in net income of subsidiaries	–	–	–	80	80
Net income for the year attributable to the Parent Company	₱3,323	₱1,290	₱202	₱197	₱5,012
Statement of Financial Position					
Total assets	₱142,795	₱146,043	₱47,913	₱10,791	₱347,542
Total liabilities	₱76,652	₱79,566	₱131,057	₱18,492	₱305,767
Other Segment Information					
Capital expenditures	₱14	₱58	₱633	₱331	₱1,036
Depreciation and amortization	₱6	₱30	₱256	₱137	₱429
Provision for (recovery of) credit and impairment losses	₱–	₱174	₱350	(₱475)	₱49

	December 31, 2012 (As Restated)				
	Financial Markets	Wholesale Banking	Retail Banking	All Other Segments	Total
Statement of Income					
Net interest income:					
Third party	₱3,312	₱4,599	₱664	(₱478)	₱8,097
Intersegment	(1,502)	(3,113)	2,571	2,044	–
	1,810	1,486	3,235	1,566	8,097
Noninterest income	4,556	830	490	53	5,929
Revenue - net of interest expense	6,366	2,316	3,725	1,619	14,026
Noninterest expense	835	1,672	3,001	739	6,247
Income before income tax	5,531	644	724	880	7,779
Provision for income tax	348	294	57	(466)	233
Non-controlling interest in net income of subsidiaries	–	–	–	30	30
Net income for the year attributable to the Parent Company	₱5,183	₱350	₱667	₱1,316	₱7,516
Statement of Financial Position					
Total assets	₱119,485	₱124,963	₱7,750	₱7,065	₱259,263
Total liabilities	₱68,339	₱53,256	₱87,109	₱12,763	₱221,467
Other Segment Information					
Capital expenditures	₱15	₱88	₱419	₱267	₱789
Depreciation and amortization	₱7	₱47	₱184	₱122	₱360
Provision for (recovery of) credit and impairment losses	₱–	₱302	₱99	(₱126)	₱275

No operating segments have been aggregated to form the above reportable operating business segments.

The Group's share in net income (loss) of a joint venture amounting to ₱25.5 million in 2014, ₱18.4 million in 2013, and ₱4.5 million in 2012 are included under 'All Other Segments'.

35. Financial Performance

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			**Parent Company**		
	2014	2013	2012	**2014**	2013	2012
Return on average equity	**16.32%**	12.87%	21.96%	**16.17%**	12.89%	22.78%
Return on average assets	**1.91%**	1.82%	3.32%	**1.91%**	1.85%	3.46%
Net interest margin	**3.37%**	3.49%	3.93%	**3.44%**	3.32%	3.78%

Basic earnings per share amounts were computed as follows (amounts in thousands except earnings per share):

	2014	2013	2012
a. Net income attributable to the equity holders of the Parent Company	**₱7,163,738**	₱5,011,725	₱7,515,877
b. Weighted average number of outstanding common shares	**602,831**	602,831	602,831
c. Earnings per share (a/b)	**₱11.88**	₱8.31	₱12.47

As of December 31, 2014, 2013 and 2012, the Parent Company has no potentially dilutive common shares.

36. **Notes to the Statements of Cash Flows**

Significant non-cash transactions of the Group and Parent Company include foreclosures of investment properties and chattels as disclosed in Notes 15 and 16, respectively.

37. **Events after the Reporting Period**

In 2014, the Parent Company entered into a distribution agreement with FWD Life Insurance Corporation (FWD) for the marketing of the FWD's life insurance products through the Parent Company's marketing and distribution network. The distribution agreement was approved by the BSP on December 22, 2014 under Monetary Board Resolution No. 2073, through its letter to the Parent Company dated January 7, 2015, and the Insurance Commission on January 12, 2015. In addition, a voting trust agreement executed by FWD took effect upon BSP approval of the distribution agreement where the Parent Company can exercise 10% voting rights at any of its shareholders meeting.

On January 5, 2015, the Parent Company participated in the Republic of the Philippines' cash tender offer and submitted its holdings of eligible dollar bonds classified under the HTC business model. The Parent Company concluded that the sale does not violate its HTC business model.

As discussed in Note 11, the Parent Company's BOD approved the integration of SBS. On January 8, 2015, the BSP approved the purchase of all assets and assumption of all liabilities of SBS by the Parent Company. On January 14, 2015, the BSP further clarified that SBS will not become a shell corporation after the integration because it will retain cash to meet its capital requirement as a thrift bank, and after one year of dormancy, shall go back to the BSP for consideration to resume its banking operations. On its letter dated January 29, 2015, the PDIC also granted the consent to the proposed sale of all assets and assumption of all liabilities of SBS to the Parent Company under the Resolution No. 2014-12-290 dated December 19, 2014.

On February 3, 2015, the Parent Company issued 3.95% coupon rate dollar bonds at par with a face value of USD300.00 million maturing in 5 years.

In February 2015, the Parent Company disposed certain peso-denominated government securities classified as HTC with an aggregate face amount of ₱2.6 billion which resulted to a gain of ₱281.5 million. The related impact of the disposal on the remaining HTC portfolio as finally assessed by the Parent Company will be reflected as required in the next reporting period.

38. **Approval of the Release of the Financial Statements**

The BOD of the Parent Company reviewed and approved the release of the accompanying consolidated and parent company financial statements on February 24, 2015.

39. **Supplementary Information Required Under Revenue Regulation No. 15-2010**

On November 25, 2010, the BIR issued Revenue Regulation (RR) No. 15-2010 to amend certain provisions of RR No. 21-2002. The Regulations provide that starting 2010, the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the calendar year ended December 31, 2014:

Gross receipt tax (GRT)
The Parent Company is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, fees and commissions from lending activities at 5% or 1%, depending on the loan term, and at 7% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

In FCDU, income classified under Ohers, which is subject to corporate income tax, is also subject to GRT at 7%.

The details of the Parent Company's GRT payments and corresponding GRT tax base in 2014 are as follows:

	GRT	GRT tax base
Income from lending activities	₱326,905	₱10,991,179
Other income	91,971	1,313,871
	₱418,876	₱12,305,050

Taxes and Licenses
This includes all other taxes, local and national, incurred in 2014 and lodged under 'Taxes and licenses' in the statement of income, as follows:

	Amount
Documentary stamp taxes	₱399,645
Fringe benefit taxes	22,322
Mayor's permit	20,422
Real estate taxes	10,315
Other taxes	23,400
	₱476,104

Other taxes include car registration fees, privilege taxes and other permits.

Withholding Taxes
Details of total remittances in 2014 and balances as of December 31, 2014 are as follows:

	Total Remittance	Balance
Withholding taxes on compensation and benefits	₱392,891	₱39,341
Expanded withholding taxes	78,640	7,446
Final withholding taxes	517,379	44,053
	₱988,910	₱90,840

Tax Assessments and Cases
As of December 31, 2014, the Parent Company has no deficiency tax assessments and has no tax cases, litigation and/or prosecution in courts or bodies outside the BIR.

SECURITY BANK CORPORATION AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2014

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SECURITY BANK CORPORATION
6776 Ayala Avenue
Makati City

SCHEDULE I
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2014

(Amounts in Thousands)

Unappropriated Retained Earnings at Beginning of Year	**₱30,422,996**
Adjustments on beginning balance:	
Unrealized FX gains - net (except those attributable to Cash & Cash Equivalents)	(301,597)
Fair value adjustments (mark to market gains)	(493,942)
Fair value gain at foreclosure date	(50,818)
Day one loss on off-market receivables, net of interest	528
Interest accrued on impaired financial assets	(9,871)
Remeasurement losses on defined benefit plans	377,756
Deferred tax assets	(665,161)
Unappropriated Retained Earnings, as adjusted, beginning	29,279,891
Add: Net Income actually earned/realized during the year	
Net Income during the year	6,984,987
Less: Non-actual/unrealized income net of tax during the year	
Unrealized FX gains - net (except those attributable to Cash & Cash Equivalents)	216,022
Fair value adjustments (mark to market gains)	310,342
Interest accrued on impaired financial assets	1,037
Interest accrued on off-market rate receivables	311
Recognized deferred tax asset	282,634
Sub-total	810,346
Add: Non-actual losses/realized income during the year	
Realized income categorized as unrealized in previous years	795,539
Net Income Actually Earned during the period	6,970,180
Add (Less):	
Dividend declarations during the year	(1,205,671)
Appropriations of retained earnings during the period	(87,383)
Total Retained Earnings Available for Dividend Declaration at End of Year	**₱34,957,017**

SECURITY BANK CORPORATION
SCHEDULE II
LIST OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS)
EFFECTIVE AS OF DECEMBER 31, 2014

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendments to PFRS 1: Meaning of Effective PFRS			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition		Not early adopted (effective in 2015)	
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Considerations in a Business Combination		Not early adopted (effective in 2015)	
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements		Not early adopted (effective in 2015)	
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal		Not early adopted (effective in 2016)	
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities*	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Servicing Contracts			✓ (effective in 2016)
	Applicability of Amendments to PFRS 7 to Condensed Interim Financial Statements		Not early adopted (effective in 2016)	
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments Assets to the Entity's Assets		Not early adopted (effective in 2015)	
PFRS 9* (2010 version)	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 9 (2013 version)	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39		Not early adopted (adopted the 2010 version)	
PFRS 9 (2014 or final version)	Financial Instruments		Not early adopted (adopted the 2010 version)	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		Not early adopted (effective in 2016)	
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations		Not early adopted (effective in 2016)	
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
PFRS 13	Fair Value Measurement (2013 Version)	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception		Not early adopted (effective in 2015)	
PFRS 14	Regulatory Deferral Accounts			✓ (effective in 2016)
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income*	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation			✓ (effective in 2015)
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization		Not early adopted Effective in 2016	
	Amendments to PAS 16: Bearer Plants			✓ (effective in 2016)
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions		Not early adopted (effective in 2015)	
	Regional Market Issue regarding Discount Rate		Not early adopted (effective in 2016)	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2014**		**Adopted**	**Not Adopted**	**Not Applicable**
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel		Not early adopted (effective in 2015)	
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements		Not early adopted (effective in 2016)	
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Disclosure of Information 'Elsewhere in the Interim Financial Report'		Not early adopted Effective in 2016	
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization			✓ (effective in 2016)
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization		Not early adopted Effective in 2016	

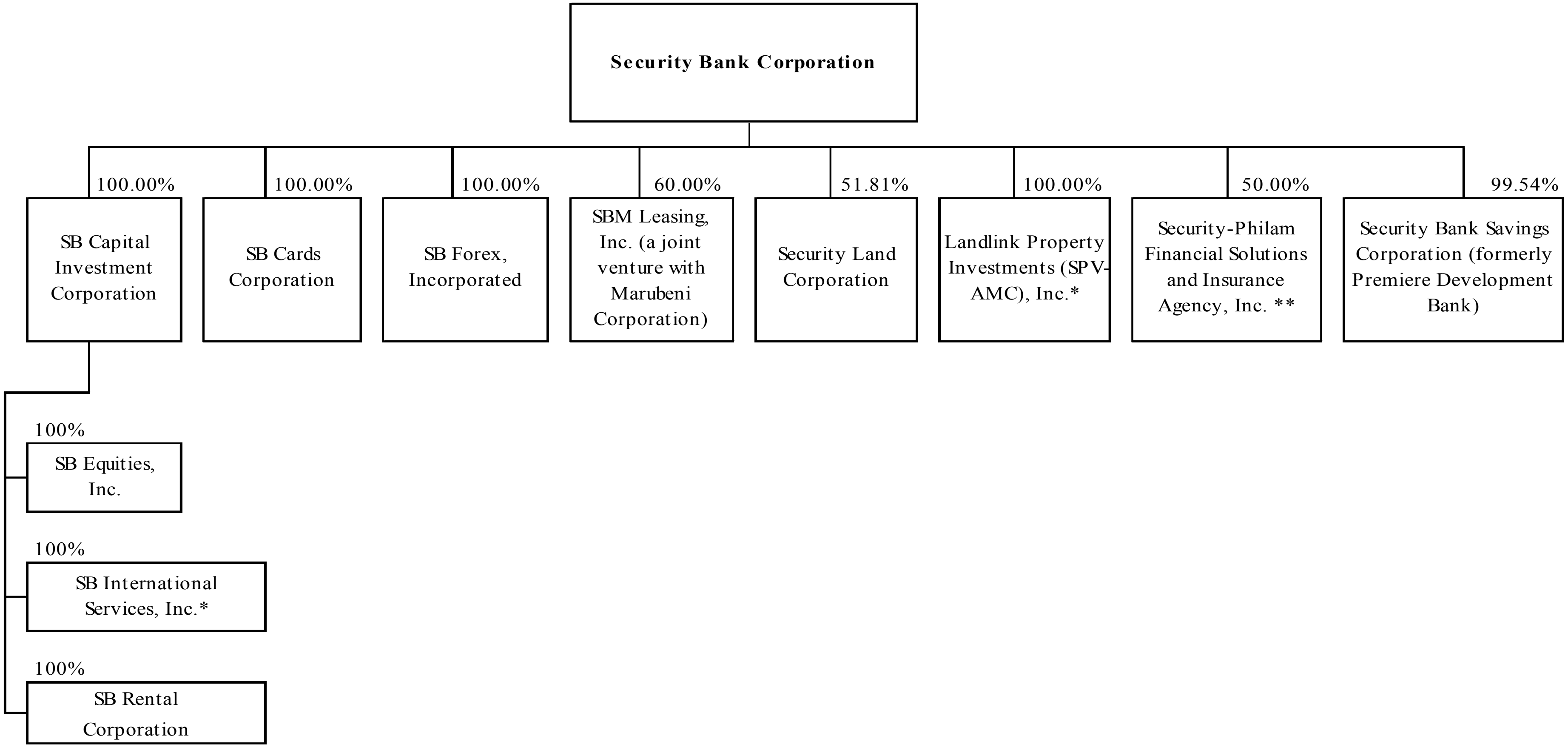
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Investment Property: Clarifying the relationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property		Not early adopted Effective in 2015	
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants		Not early adopted Effective in 2016	
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities	✓		
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**This standard has been early adopted by the Bank.*

SCHEDULE III
MAP SHOWING RELATIONSHIPS BETWEEN AND AMONG PARENT SUBSIDIARIES AND A JOINT VENTURE

Security Bank Corporation and Subsidiaries



*pre-operating stage
**liquidating stage

Security Bank Corporation and Subsidiaries
Schedule A – Financial Assets
December 31, 2014

(Amounts and Number of Shares in Thousands)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds or notes	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income accrued
Financial assets at fair value through profit or loss				
Philippine government	₱7,401,366	₱8,814,603	₱8,814,603	₱161,086
Private corporations	18,145	18,285	18,285	173
Publicly-listed companies (Equity securities held for trading) (in number of shares)	91,319	649,108	649,108	–
Privately held companies (Equity securities) (in number of shares)	29	15,117	15,117	–
Philippine government	USD5,628	467,989	467,989	6,628
Other government	USD3,000	137,918	137,918	751
Private corporations	USD1,357	63,092	63,092	929
Various derivative counterparties		755,710	755,710	338,068
		₱10,921,822	₱10,921,822	₱507,635
Financial assets at fair value through other comprehensive income				
Private corporations (shares)	178	₱150,780	₱150,780	₱–
Investment securities at amortized cost				
Philippine government	₱33,766,044	₱41,970,318	₱46,301,181	₱773,148
Private corporations	3,184,100	3,528,766	3,573,026	40,904
Philippine government	USD826,158	47,982,486	49,848,208	903,603
Private corporations	USD178,500	8,003,273	7,844,363	122,623
		₱101,484,843	₱107,566,778	₱1,840,278

Security Bank Corporation and Subsidiaries
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2014

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non-Current	Balance at end of period

None to Report

Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders are subject to usual terms in the normal course of business.

Security Bank Corporation and Subsidiaries
Schedule C - Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
December 31, 2014

(Amounts in Thousands)

Name of Debtor	Balance at beginning of period	Additions	Deductions: Amounts Collected	Deductions: Amounts Written-off	Current	Non-Current	Balance at end of period
US Dollar							
SB Cards Corporation	USD980	USD1,495	USD1,765	USD –	USD710	USD–	USD710
Philippine Peso							
SB Cards Corporation	₱153,686	₱235,805	₱334,566	₱–	₱54,925	₱	₱54,925
SB Capital Investment Corporation	2,016	10,919	10,818	–	2,117	–	2,117
SB Equities, Inc.	1,918	16,784	13,047	–	5,655	–	5,655
SB Rental Corporation	–	1,638	1,589	–	49	–	49
Landlink Property Investments (SPV-AMC), Inc.	–	20	20	–	–	–	–
Security Land Corporation	4,652	7,195	7,230	–	4,617	–	4,617
SB Forex, Inc.	–	21	21	–	–	–	–
Security Bank Savings Corporation	972,582	62,076,778	63,045,782	–	3,578	–	3,578
	₱1,134,854	₱62,349,160	₱63,413,073	₱–	₱70,941	₱–	₱70,941

Security Bank Corporation and Subsidiaries
Schedule D - Intangible Assets - Other Assets
December 31, 2014

(Amounts in Thousands)

Description [i]	Beginning Balance	Additions at Cost [ii]	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) [iii]	Ending Balance
Goodwill	₱841,602	₱–	₱–	₱–	₱–	₱841,602
Branch Licenses	1,140,000	220,000	–	–	–	1,360,000
Software costs	116,031	72,026	56,647	–	–	131,410
Exchange trading right	8,500	–	–	–	–	8,500
	₱2,106,133	₱292,026	₱56,647	₱–	₱–	₱2,341,512

[I] The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.
[II] For each change representing other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.
[III] If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

Security Bank Corporation and Subsidiaries
Schedule E - Long-Term Debt
December 31, 2014

(Amounts in Millions)

Title of issue and type of obligation [i]	Amount authorized by indenture	Amount shown under caption "Current portion"	Amount shown under caption "Long-Term Debt"	Interest Rate %	Maturity Date
Long-term Negotiable Certificates of Deposit (Series 1)	**₱4,977**	**₱–**	**₱4,977**	**5.5**	**2/17/2019**
Long-term Negotiable Certificates of Deposit (Series 2)	**₱4,975**	**₱–**	**₱4,975**	**5.5**	**8/16/2019**
Bills Payable and Securities Sold Under Repurchased Agreements					
Bills Payable - SSURA	₱1,554	₱–	₱1,554	1.23	1/15/2021
Bills Payable - SSURA	1,042	–	1,042	1.03	1/20/2020
Bills Payable - SSURA	311	–	311	0.73	1/15/2021
Bills Payable - SSURA	1,540	–	1,540	0.98	1/15/2021
Bills Payable - SSURA	489	489	–	1.10	2/12/2015
Bills Payable - SSURA	119	119	–	1.10	2/12/2015
Bills Payable - SSURA	736	736	–	0.75	2/12/2015
Bills Payable - SSURA	403	403	–	1.30	2/13/2015
Bills Payable - SSURA	506	506	–	1.30	2/13/2015
Bills Payable - SSURA	447	447	–	1.30	2/18/2015
Bills Payable - SSURA	670	670	–	1.10	2/18/2015
Bills Payable - SSURA	828	828	–	1.30	1/27/2015

Title of issue and type of obligation [i]	Amount authorized by indenture	Amount shown under caption "Current portion"	Amount shown under caption "Long-Term Debt"	Interest Rate %	Maturity Date
Bills Payable - SSURA	₱539	₱539	–	1.30	1/23/2015
Bills Payable - SSURA	998	998	–	1.50	1/29/2015
Bills Payable - SSURA	650	650	–	1.50	1/29/2015
Bills Payable - SSURA	988	988	–	1.90	2/9/2015
Bills Payable - SSURA	281	281	–	0.70	1/5/2015
Bills Payable - SSURA	662	–	₱662	1.33	1/22/2024
Bills Payable - SSURA	232	232	–	0.61	1/16/2015
Bills Payable - SSURA	488	488	–	0.58	1/20/2015
Bills Payable - SSURA	585	585	–	0.56	1/21/2015
Bills Payable - SSURA	151	151	–	1.05	1/21/2015
Bills Payable - SSURA	236	236	–	0.55	1/23/2015
Bills Payable - SSURA	446	446	–	0.65	1/26/2015
Bills Payable - SSURA	502	502	–	0.45	1/26/2015
Bills Payable - SSURA	408	408	–	0.45	1/26/2015
Bills Payable - SSURA	668	668	–	0.65	2/24/2015
Bills Payable - SSURA	521	521	–	0.50	1/23/2015
Bills Payable - SSURA	228	228	–	0.57	1/23/2015
Bills Payable - SSURA	243	243	–	0.48	1/26/2015
Bills Payable - SSURA	292	292	–	0.55	1/26/2015
Bills Payable - SSURA	523	523	–	0.48	1/6/2015
Bills Payable - SSURA	448	448	–	0.68	1/9/2015
Bills Payable - SSURA	463	463	–	0.62	1/26/2015

Title of issue and type of obligation [i]	Amount authorized by indenture	Amount shown under caption “Current portion”	Amount shown under caption “Long-Term Debt”	Interest Rate %	Maturity Date
Bills Payable - SSURA	₱586	₱586	–	0.58	1/26/2015
Bills Payable - SSURA	148	148	–	1.25	1/12/2015
Bills Payable - SSURA	81	81	–	1.25	1/12/2015
Bills Payable - SSURA	112	112	–	0.65	1/12/2015
Bills Payable - SSURA	281	281	–	1.25	1/12/2015
Bills Payable - SSURA	238	238	–	0.50	1/27/2015
Bills Payable - SSURA	602	602	–	0.50	1/27/2015
Bills Payable - SSURA	315	315	–	1.00	1/27/2015
Bills Payable - SSURA	302	302	–	1.00	1/27/2015
Bills Payable - SSURA	1,109	1,109	–	0.77	1/28/2015
Bills Payable - SSURA	200	200	–	0.45	1/28/2015
Bills Payable - SSURA	474	474	–	0.55	1/28/2015
Bills Payable - SSURA	207	207	–	0.63	1/16/2015
Bills Payable - SSURA	440	440	–	1.30	1/16/2015
Bills Payable - SSURA	455	455	–	0.98	1/20/2015
Bills Payable - SSURA	95	95	–	0.67	1/20/2015
Bills Payable - SSURA	153	153	–	0.60	1/12/2015
Bills Payable - SSURA	1,136	1,136	–	0.55	1/14/2015
Bills Payable - SSURA	781	781	–	0.98	1/14/2015
Bills Payable - SSURA	227	227	–	0.50	1/15/2015
Bills Payable - SSURA	485	485	–	0.45	1/15/2015
Bills Payable - SSURA	610	610	–	0.48	1/15/2015

Title of issue and type of obligation [i]	Amount authorized by indenture	Amount shown under caption "Current portion"	Amount shown under caption "Long-Term Debt"	Interest Rate %	Maturity Date
Bills Payable - SSURA	₱241	₱241	–	0.70	1/15/2015
Bills Payable - SSURA	1,110	1,110	–	0.80	2/17/2015
Bills Payable - SSURA	1,057	1,057	–	0.55	2/17/2015
Bills Payable - SSURA	482	482	–	0.55	2/17/2015
Bills Payable - SSURA	1,032	1,032	–	0.48	1/16/2015
Bills Payable - SSURA	316	316	–	0.78	1/20/2015
Bills Payable - SSURA	592	592	–	0.75	1/30/2015
Bills Payable - SSURA	991	991	–	0.75	2/17/2015
Bills Payable - SSURA	413	413	–	0.48	1/20/2015
Bills Payable - SSURA	623	623	–	0.55	1/20/2015
Bills Payable - SSURA	479	479	–	0.76	2/2/2015
Bills Payable - SSURA	446	446	–	0.70	2/18/2015
Bills Payable - SSURA	725	725	–	0.98	1/16/2015
Bills Payable - SSURA	153	153	–	0.55	1/16/2015
Bills Payable - SSURA	306	306	–	0.75	1/16/2015
Bills Payable - SSURA	281	281	–	1.50	1/21/2015
Bills Payable - SSURA	141	141	–	1.50	1/21/2015
Bills Payable - SSURA	148	148	–	1.50	1/21/2015
Bills Payable - SSURA	1,074	1,074	–	0.50	1/21/2015
Bills Payable - SSURA	492	492	–	0.50	1/21/2015
Bills Payable - SSURA	549	549	–	0.78	3/23/2015
Bills Payable - SSURA	213	213	–	0.75	1/6/2015

Title of issue and type of obligation [i]	Amount authorized by indenture	Amount shown under caption "Current portion"	Amount shown under caption "Long-Term Debt"	Interest Rate %	Maturity Date
Bills Payable - SSURA	₱609	₱609	–	0.55	2/6/2015
Bills Payable - SSURA	527	527	–	0.75	3/23/2015
Bills Payable - SSURA	491	491	–	1.10	2/12/2015
Bills Payable - IBTL	608	608	–	1.23	1/13/2015
Bills Payable - IBTL	1,118	1,118	–	1.03	2/3/2015
Bills Payable - IBTL	224	224	–	1.21	1/21/2015
Bills Payable - IBTL	894	894	–	0.97	1/21/2015
Bills Payable - IBTL	47	47	–	1.50	1/26/2015
Bills Payable - IBTL	136	136	–	1.50	1/13/2015
Bills Payable - IBTL	224	224	–	1.50	2/2/2015
Bills Payable - IBTL	264	264	–	1.50	2/17/2015
Bills Payable - DBP Funded	37	–	₱37	8.00	8/25/2031
Bills Payable - DBP Funded	38	–	38	8.00	8/25/2031
Bills Payable - DBP Funded	19	–	19	8.00	8/25/2031
Bills Payable - DBP Funded	48	–	48	8.00	8/25/2031
Bills Payable - DBP Funded	50	–	50	8.00	8/25/2031
Bills Payable - IBCL	1,000	1,000	–	3.19	1/5/2015
Bills Payable	1,469	1,469	–	–	–
Bills Payable	141	141	–	–	–
Bills Payable	31,560	31,560	–	–	–
Total Bills Payable	**₱79,602**	**₱74,301**	**₱5,301**	**–**	**–**
Unsecured Subordinated Debt - Net	**₱9,933**	**₱–**	**₱9,933**	**5.375**	**7/11/2024**

Schedule F - Indebtedness to Related Parties
(included in the consolidated financial statement of position)
December 31, 2014

Name of Related Parties (i)	Balance at beginning of period	Balance at end of period (ii)

None to Report

(i) The related parties named shall be grouped as in Schedule D. The information called shall be stated for any persons whose investments shown separately in such related schedule.
(ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

Security Bank Corporation and Subsidiaries
Schedule G - Guarantees of Securities of Other Issuers
December 31, 2014

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding (i)	Amount owned by person of which statement is filed	Nature of guarantee (ii)

None to Report

(i) Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.
(ii) There must be a brief statement of the nature of the guarantee, such as “Guarantee of principal and interest”, “Guarantee of Interest”, or “Guarantee of Dividends”. If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

Security Bank Corporation and Subsidiaries
Schedule H - Capital Stock
December 31, 2014

(Absolute number of shares)

Title of Issue [i]	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties [ii]	Directors, officers and employees	Others [iii]
Common stock - ₱10 par value						
Authorized	1,000,000,000					
Issued and outstanding		602,831,109	–	–	110,246,088	–
Preferred stock - ₱0.10 par value						
Authorized	1,000,000,000					
Issued and outstanding		602,831,109	–	–	277,983,376	–

[i] Include in this column each type of issue authorized
[ii] Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.
[iii] Indicate in a note any significant changes since the date of the last balance sheet filed.

SECURITY BANK CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
(Amounts in Millions of Philippine Pesos)

		Consolidated		Parent Company	
		2014	2013	**2014**	2013
LIQUIDITY (%)					
Liquid to Total Assets	Liquid Assets	**193,150.39**	173,159.12	**191,048.71**	172,774.69
	Total Assets	**397,198.33**	347,541.95	**386,348.33**	338,750.25
		48.63	49.82	**49.45**	51.00
Loans (net) to Deposit Ratio	Loans and Receivables, net	**194,004.09**	165,241.56	**184,379.42**	155,989.70
	Total Deposits	**246,812.79**	205,950.29	**239,282.31**	199,973.33
		78.60	80.23	**77.06**	78.01
SOLVENCY RATIOS					
Debt-to-equity ratio	Total Debt	**349,241.29**	305,766.97	**340,312.96**	298,621.60
	Total Equity	**46,881.29**	40,755.81	**46,035.37**	40,128.65
		7.45	7.50	**7.39**	7.44
Asset-to-equity ratio	Total Assets	**397,198.33**	347,541.95	**386,348.33**	298,621.60
	Total Equity Attributable to Parent Company	**46,881.29**	40,755.81	**46,035.37**	40,128.65
		8.47	8.53	**8.39**	7.44
Interest rate coverage ratio	Earnings Before Interest and Taxes (EBIT)	**12,322.31**	9,458.91	**11,801.25**	9,061.05
	Interest Expense	**4,233.13**	3,947.25	**4,078.61**	3,818.09
		2.91	2.40	**2.89**	2.37
PROFITABILITY (%)					
Return on assets	Net Income Attributable to Parent Company	**7,163.74**	5,011.73	**6,984.99**	4,937.05
	Average Total Assets	**375,598.21**	274,846.63	**365,387.41**	266,964.46
		1.91	1.82	**1.91**	1.85

		Consolidated		Parent Company	
		2014	2013	**2014**	2013
Return on equity	Net Income Attributable to Parent Company	**7,163.74**	5,011.73	**6,984.99**	4,937.05
	Average Total Equity Attributable to Parent Company	**43,884.77**	38,935.81	**43,199.57**	38,306.15
		16.32	12.87	**16.17**	12.89
Net interest margin	Net Interest Income	**11,161.87**	8,384.08	**10,253.51**	7,730.20
	Average Interest Earning Assets	**330,945.61**	239,903.43	**298,165.06**	233,058.66
		3.37	3.49	**3.44**	3.32
Cost to income ratio	Total Operating Expenses before Provision and Impairment Losses	**7,926.15**	6,751.51	**6,517.22**	5,379.69
	Total Operating Income	**16,769.45**	12,312.44	**14,852.70**	10,624.40
		47.27	54.83	**43.88**	50.64
ASSET QUALITY (%)					
Non-performing loans ratio	Non-performing Loans (net of NPLs Classified as Loss)	**530.72**	*183.61	**324.75**	*(69.39)
	Gross Loans (net of NPLs Classified as Loss)	**191,201.61**	174,530.71	**182,343.37**	166,383.59
		0.28	0.11	**0.18**	(0.04)

**Non-performing loans (net of specific allowance) over gross loans. Computed based on BSP Circular 772.*

Non-performing loan cover	Allowance for Probable Losses (net of that for NPLs Classified as Loss)	****3,690.59**	**2,984.85	****3,054.34**	**2,214.16
	Non-performing Loans (net of NPLs Classified as Loss)	**1,841.12**	1,533.82	**1,180.93**	679.83
		200.45	194.60	**258.64**	325.69

***Allowance for probable losses over non-performing loans (gross of specific allowance). Computed based on BSP Circular 772.*